

**Organizational Evolution *via* Spatial Partitioning**  
**Case Study of A State-owned Advertising Agency in Reform China**

by

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## ABSTRACT

This study focuses on the survival and development of state-owned ad agencies during the marketization of Chinese advertising industry. Born in the state-planned economy system with crucial weakness in providing professional advertising services to clients, how could state-owned ad agencies keep growing and even beat international ad agencies in winning big local clients?

By conducting a case study on PAC, one of the largest state-owned ad agencies located in a region with the highest degree of marketization, I found that PAC members strategically managed their performances and activities in a way that can be viewed as spatial partitioning in advertising practices. In this view, an organization or a social actor is seen acting in specific organizational and institutional locale, which is divided into the back and front regions because of differences in the types and forms of activities as well as rules and norms governing such activities. In the front region, PAC leaders implemented the professionalist-style management to establish the agency's professional image and to provide professional services to the clients. In the back region, they enforced the authoritarian-style management to effectively mobilize the limited resources in advertising production, especially at the critical moment of bidding for local clients against international ad agencies.

The integration of the two paradigms of organizational management reflects an organizational dualism in PAC's operation, which refers to the mixture of the ideology of market economy and that of state-planned economy in organizational management. Such an organizational dualism can be recognized in the operation of many state-owned enterprises that are involved in the state-patrolled marketization in China. The two modes of organizational management reinforced each other and together enabled PAC's survival and development in the intensive competition with international ad agencies.

PAC is able to win local clients through spatial partitioning in part because the spatial partitioning also exists in the management of local clients and international ad agencies. Although spatial partitioning may be a general characteristic of a complex organization, the distinction between the mentality in management in the front region and the back region may be particularly pertinent to organizations involved in intensive competition in a transitional society, where ideologies that once were alien to each other are woven together now. The spatial perspective provides a unique angle for us to understand questions about the social change that has been taking place in contemporary China.

## 摘要

本文著重探討中國的國營廣告公司在市場化進程中生存和發展的問題。中國的國營廣告公司是在計劃經濟體制下誕生和發展起來的，在提供專業化的廣告服務等方面存在著嚴重的不足。但既然如此，為甚麼仍有一些國營廣告公司可以在與專業水準很高的國際廣告公司的激烈競爭中持續發展、甚至可以“打敗”國際廣告公司而贏得本土的客戶呢？

通過對中國一家最大的國營廣告公司的個案研究，我發現該公司在廣告實踐中策略地劃分其活動空間（包括實體的、組織的和制度的空間）並有效地管理其員工在不同空間的活動和表現，而他們在不同空間的活動和表現又構築了不同的規範制約了他們的行為。在前台，他們採用了專業化的管理模式樹立自身的專業形象，提供專業的廣告服務給客戶；但在後台，他們採用了威權的管理模式有效地集中有限的資源與國際廣告公司爭奪本土客戶。

這兩種管理模式在該國營廣告公司的廣告實踐中緊密結合，相輔相成。它反映出中國國營廣告公司在市場化的進程中面臨的雙重困境：在前台，他們面臨競爭和專業化的壓力；在後台，他們要保留國營的性質以及由此而來的種種束縛。因此，空間的劃分以及不同管理模式在不同空間的運用折射出國營廣告公司在計劃經濟和市場經濟這兩種意識形態共同作用下形成的一種組織雙重性。

空間劃分的觀點有助我們研究轉型社會里的組織變遷並有助我們理解當今中國正在發生的社會變化。



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# **Chapter I**

## **Introduction**

### **Prelude**

August 4, 1999 was a typical mid-summer day in Modern City, a small city in a southern coastal province of China. It was extremely hot and humid. I got up early for a scheduled event of the day: the presentations of seven ad agencies invited by Dragon Corporation, one of the largest privately owned manufacturers home electric appliances in China, to bid for its advertising account in year 2,000. I was not a participant of this event; I was there only to witness the event as part of the fieldwork for my thesis research. A key person in the advertising division of Dragon Corporation secured my access to this event that was secluded from outsiders.

Some people turned out to be much more anxious than I was with regard to the upcoming event and they got up much earlier than I did to prepare for the event. The team from Phoenix Advertising Corporation (PAC), the only state-owned ad agency among seven, was led by its General Manager and four Deputy General Managers. The team members had been up since 6 o'clock that morning and had arrived at Dragon Corporation's conference room, where the bidding presentations would take place, at 7, even though PAC's presentation was not to start until 2 hours later.

When I arrived to the conference room a few minutes before the 9 o'clock event, I was stunned by what I saw. On one side of the room facing the entrance, several adjustable boards were hang up, demonstrating all the layouts and storyboards that PAC's team had designed for Dragon Corporation's advertising in year 2,000. Each board had a project-light on. On the other side of the room, various gadgets for display and distribution at retail sites called POP (point of purchase) were displayed. Hanging from the ceiling, some pieces of POP were revolving in the air, each was driven by a

mini-motor. On the table in the middle of the conference room two portable computers were set and connected to a sophisticated portable projector.

I was told that during the proceeding two hours when PAC's team members set up these displays in the conference room, one Deputy General Manager, who had been a lieutenant colonel in the artillery force of the People's Liberation Army (PLA), stood in the room and timed the team's work. After the exhibition was complete, the former Lieutenant Colonel asked the team members who would give presentations to synchronize their watches in order to control each other's speech. Three minutes before 9 o'clock, with a deep frown on his face, he urged everybody to go to restroom before the presentation started.

When the 10 evaluation committee members led by the General Manager of Dragon Corporation stepped into the conference room at 9 o'clock sharp, they were also stunned by the exhibitions. They were impressed by the PAC team members wearing dark blue polo shirt with a slogan on the back, "Science and technology bring fortune to Dragon's descendents" (*keji zaofu long de chuanren*). The polo shirt was the team's uniform specifically designed for this occasion. The slogan on the back was the very slogan that PAC had created for Dragon Corporation's promotional campaign in year 2,000. To the committee members, the PAC team, sitting silently in the back of the room with the uniform on, looked just like an army unit ready for a battle.

"Are you going to attend the Olympic games?" One of the committee members asked jokingly.

The General Manager of PAC, a former captain in signal corps of the PLA, who is also the Party Secretary of the state-owned advertising agency, replied solemnly, "We are not players but foot soldiers who are capable of fighting hard battles (*neng da yingzhang de bing*)."



I knew that PAC had attached great importance to this bid and had invested heavily in the preparation for this presentation. I knew because, as I would describe in more details in Chapter 5, I joined the team sent to a sealed-off training center to work on the presentation. In the market research part, PAC spent 20,000 yuan (US\$2,409) on a survey conducted specifically for this presentation in Phoenix City, where PAC was located. The survey was designed to get some quantitative and systematic data on brand images of the products by Dragon Corporation and its competitors. In the creative part, the PAC teams provided 20 layouts for print media, 7 storyboards for TV commercials, and 50 POP items for promotion at retail sites. The amount of promotional and marketing items prepared were three or four times more than that brought there by the three competing international advertising agencies.

The bidding revealed clear differences in the managerial paradigms between PAC and the international ad agencies. While the international ad agencies pressed Dragon Corporation for the exact advertising budget during the presentation and outlined their services dictated by the budget, PAC's Deputy Manager opened the team's presentation by stressing Dragon Corporation and PAC were both domestic business enterprises and PAC's readiness to work with Dragon Corporation for the development of "national" businesses. While the international agencies gave only scant outline of their proposed media strategy due to their experiences with local clients who often changed their advertising budget frequently, PAC gave a very detailed media plan that went along with the ads and promotional activities for the year 2,000. While the international ad agencies emphasized on their rigid production flow and bureaucratic procedure in providing services to their clients, PAC promised that if they were given the opportunity to serve Dragon Corporation, they would immediately set up a branch office in Modern City, where PAC had a training facility. With that, they promised providing all the necessary means for a close working relationship with Dragon

Corporation. While the international ad agencies talked about their international fame, prestige, and experiences in serving multi-national corporation, PAC talked simply how its people would serve Dragon Corporation. While the international ad agencies presented volumes of data showing the consumer behavior patterns related to home electronic appliance in general, the head of the PAC's marketing research department focused on the consumer behavior and psychology in relation to Dragon Corporation's products. In his presentation, he shrewdly combined his native's intuitive understanding, perceptive observations, and survey data. The presentation was so illuminating that the sales manager of Dragon Corporation kept nodding his head in agreement.

No one left the room during the three-hour presentation. The bidding committee members were clearly impressed by PAC's presentation and exhibition. One member commented afterwards, "You can feel their enthusiasm and intelligence immediately when entering the room." The other added, "PAC's presentation probably was not the most creative one, it certainly was the most comprehensive one."

A few days later, the General Manager of PAC was informed that PAC ranked the first among the seven ad agencies participated in the bidding. After the second round bidding held in October 1999, PAC and another local privately owned ad agency were named the winners of the bidding. They were to split Dragon Corporation's advertising budget for year 2,000.

### **The Questions of Intra- and Inter-Organizational Dynamics**

The bidding event was a telling moment of the tensions and dynamics that are prevalent in China's advertising industry. There are three types of advertising agencies in China now: international ad agencies such as Ogilvy and Mather, Dentsu, Sattchi and Sattchi, Leo Burnett, McCann & Erickson and so on, state-owned ad agencies such as



PAC, and privately owned ad agencies. The three types enjoy differential relationships with not only the state-controlled hierarchy and planned economy practices but also the types of resources that they can mobilize for market competition.

All the major players in China's advertising industry recognize such a distinction and its significance. To domestic advertisers, international ad agencies represent the "ideal" cooperators in terms of their high quality of their services, the full range of services that they provide, and the professional experiences that they have accumulated through years of serving international advertisers. Employing an international ad agency not only presents domestic advertisers' strength and their progress toward modernization and globalization but also supplement their own shortage in marketing experiences. Although Dragon Corporation had severed their relationships with Leo Burnett and McCann & Erickson, the two international ad agencies that had represented it in the last three years, it still invited three international ad agencies to participate in the bidding.

To international ad agencies, most of the domestic ad agencies lack the experiences in handling a big client such as Dragon Corporation. In addition, they believe that one direct path for domestic advertisers to institutionalize the modern management during the market reforms is to work with international ad agencies. In their view, both domestic advertisers and domestic ad agencies are "patients" due to their lack of standardized operation and professional experiences. The international ad agencies are thus "doctors" who are best equipped to "cure" the deficiencies in domestic ad agencies. Therefore, the international ad agencies participating in the bidding had not expected that Dragon Corporation would cooperate with a state-owned ad agency such as PAC. They were rather unexpectedly defeated by a weak competitor.

Meanwhile, PAC's success in the bidding also ran against the common belief of the business community. In most people's mind, domestic ad agencies are inferior in

many ways compared with international ad agencies, most of which had more than 50 years of experiences in providing quality services to international clients. Since they first entered China, international ad agencies had made strategic uses of their clients—international advertisers with internationally famous brands—to promote themselves. The reputation of international ad agencies is built on their rapid success in the Chinese market and such success has become legendary not only in China's ad industry but also in the business community at large. As a result, PAC's success in the bidding was truly a surprise.

For me, PAC's success in the midst of strong competitions from international ad agencies and rigid constraints under which a state-owned enterprise operates is a story that renders potentials for a theoretical understanding of the interplay of various tensions and dynamics in China's advertising industry. It reveals the intra-organizational dynamics that involve both state control and market competition. It also articulates the organizational practices and changing institutions in China's advertising industry. Further, it provides clues to unlock the trajectory of institutional changes in general in the reform China, where market logic and forces are being introduced under the jealous watch and control of the state authority.

Therefore, in this study, I attempt to tackle the following research questions. At the organizational level, how could a state-owned ad agency with a great number of disadvantages keep growing in competition with more "professional and advanced" international ad agencies? At the industrial level, how has the ad industry, which originated from market economy system and once regarded alien to Chinese society, are developing in China during the reform era? More specifically, how do ad agencies and their clients in China perform the activities that constitute what we recognize as advertising production and what are the written or unwritten rules that define their practices?



These questions have broad implications beyond an advertising agency and even the advertising industry. In this study, I am also taking the broad conceptual framework of social change in a transitional society such as China, where there is an interplay between market forces and the authoritative state control. My ultimate goal is to achieve a better understanding of the social changes in China since the implementation of open-door policy in 1979 and the market-oriented economic reform in 1992. During the social transformation, why can some organizations adapt to the new environment while others cannot? During the process of adaptation, why has something been changed while others remain in the mode and style of organizational management? How may these characteristics of changes be related to the “evolutionary” mode of institutional changes in the reform China?

Placed in this broad conceptual setting, this study is an attempt to examine the intra- and inter-organizational dynamics that involve the tensions and integration of the two paradigms of organizational management. One, imprinted in the structure and rules of a state-owned enterprise, was developed to serve the planned economy. The other is developed following the logic of market economy. Such tensions and dynamics, as I will make clear in later, are acute in a state-owned advertising agency in particular and in the development of Chinese advertising industry in general. Advertising industry as a set of imported activities, organizational relationships, and cultural expressions with its own peculiar rules and conventions of operation is not only heavily regulated by the state, more importantly, it is also actively incorporated into the state-initiated reforms to establish China’s “socialist market economy.” Its resurrection and rapid growth in China since 1979 are synchronous with the inauguration and expansion of China’s economic reforms; they also reflect quite clearly the major tensions in the reforms. Why did the development of China’s advertising industry and consequently, China’s economic reforms, reveal the unique trajectory of mixing the traditional planned

economy and the market economy, the rigidity of state control and the innovativeness in market places? To me, examining the operation of a state-owned ad agency will provide an empirically based answer to this broad question, rendering not only practical but also theoretical significance to this project.

### **Hybridization: A Historical Trajectory of Chinese Advertising Industry**

The present dynamics in Chinese advertising industry have their roots in the historical origin and trajectory of the industry's development. Modern advertising was imported from the west at the turn of this century (Huang, 1996). Along with the economic and military expansion of Western powers in China after the Opium War of the mid-nineteenth century, 7000 offices and branches of foreign companies had been set up in China in 1918, representing a wide range of industries and services (Spence, 1990, p. 329). Meanwhile, Western missionaries and merchants introduced modern mass media to China, particularly in a few port cities such as Shanghai. As a result, advertising was employed to promote Western goods and to expand their sales in the untapped Chinese market (Wang, 1997).

Right before the communist revolution in 1949, there were about 100 ad agencies operating in Shanghai, with a few others in Beijing, Chongqing, and Guangzhou (Cheng, 1996, pp. 76-77). Most of the ad agencies were private foreign and domestic operations. After the revolution, all foreign owned ad agencies were dismantled while the domestic private ad agencies were transformed into businesses jointly operated by the state and private interests. The "state-private joint operation" (*gongsi heyingshi*) proved to be short-lived. Not long after the transitional period, following the same patterns in many other sectors of the society, the



continued “socialist reformation” (*shehuizhuyi gaizao*) turned the surviving few ad agencies into state-owned businesses.

However, with the firm establishment of the regiment of state planned economy, advertising lost the basic imperative for its survival. The remaining few ad agencies were doing nothing more than passing certain limited product information through the state media and doing promotional work for political propaganda campaigns (Huang, 1997). Further, advertising, which embodies the principles such as market economy, individual choices through information and persuasion, was increasingly out of sink in a society galloping toward accepting a radical communist political regime and ideology. When the Cultural Revolution started in 1966, advertising was dealt with the final blow. Branded “a capitalist tool,” all product promotions, including established brand names, were eliminated or changed to serve the reinforcement of the communist ideological domination. Advertising disappeared from Chinese society completely.

Not until 1979 did advertising resurrected with a very timid and tentative step as a result and constituting part of the recently adopted economic reform program. Between 1979 and 1986, only state-owned ad agencies were licensed to operate. State-owned ad agencies refer to the ad agencies that are owned by the state, usually affiliated with the commission of foreign trade or the bureau of light industry of a local government. During this period, state-owned ad agencies had the monopoly guaranteed by the government to engage in media buying for international brands as well as domestic clients; they also produced ads of exported products for foreign media. These were the primary advertising activities. This was a “golden age” for state-owned ad agencies. Some people who had worked in state-owned ad agencies since that time described the period that “money comes out

like an endless stream when fax machine starts working” (*chuanzhenji yi xiang, huangjin wan liang*). There was no direct competition among the state-owned ad agencies because they were usually granted the exclusive market of serving different clients in an administrative region by the local government.

This was a very important period for the development of Chinese state-owned ad agencies. These ad agencies not only found advertising a highly profitable business, but also formed the mode of operation, the mentality in management, and the ability of providing services to clients under the state-guaranteed monopoly. In a market economy, presumably an ad agency is an organization that provides services such as brand imaging, product packaging, market research, sales promotion, creative advertising designs and media planning. Whether the ad agency can survive therefore must depend on its ability to help its clients to get, maintain, and even expand their market share. However, with state-guaranteed monopoly, state-owned ad agencies found no incentives to devote much effort to providing full-services. This structural arrangement led to two consequences. One is that state-owned ad agencies’ ability to serve a client was quite limited. Most of them were only able to work as media brokers or art designers to produce billboards or to draw layouts. Service-oriented professionalism was severely underdeveloped. The other is that as an enterprise, a state-owned ad agency maintained the authoritative and bureaucratic mentality in management in the same way as other state-owned enterprises in a planned economy system.

State-owned ad agencies did not realize these two consequences as their weaknesses that lowered their market competitiveness until the marketization of Chinese advertising industry started near the end of 1980s. By marketization of



China advertising industry, I mean the process in which the monopoly of state-owned ad agencies is eroded while competition in the market becomes the dominant framework for all players in Chinese advertising industry. Two significant events represent the beginning of the marketization of Chinese advertising industry. One is that international ad agencies started to enter the Chinese market in 1986, albeit they were limited to form joint ventures with their Chinese domestic partners. The other is that the government called for reforms in China's media organizations in 1987. The reform consisted of mainly the Chinese media organizations sustaining themselves financially through their self-earned revenues instead of relying on state subsidies.

These structural changes brought to the scene three separate players in Chinese advertising market, the international ad agencies, domestic ad agencies, and state-owned but market-dependent media organizations. By then, private ad agencies also started to develop. But most of them were small agencies with limited capital and personnel resources. Until this day, state-owned agencies still take a lion share of the heavy weights among the domestic ad agencies. Therefore, when I talk about domestic ad agencies in this study, I refer to state-owned ad agencies mostly.

These three players bring to Chinese advertising market different resources and constraints accordingly. Their interactions in China's bird-caged market economy mix together the authoritarian administrative paradigm of management of the planned economy and the profit-maximizing and service-oriented paradigm of market economy. This hybridization is filled with conflicts and tensions, revealing the unique dynamic of developing an institution of advertising production in the reform China. The institution of advertising production, taking the economist

Douglas North's (1990) conception, refers to the rules, both formal and informal, explicit and tacit, that regulate actors' actions and interactions and define the activities that constitute advertising production. In the development of the advertising institution in China, the different players draw the resources from both paradigms. To set up the basis for the later analysis, it is useful to give a contour of the rocky paths through which the international ad agencies penetrate into Chinese market and to discuss the implications of this penetration to the development of state-owned ad agencies.

The international ad agencies in this study refer to the nominally joint ventures between foreign ad agencies with their Chinese partners. The government regulations prohibit foreign ad agencies from establishing their own solo operations in China. As a result, to serve their multi-national clients who had begun to enter the Chinese market, many foreign ad agencies set up their Chinese operations as joint ventures. The first such joint venture in China, Dentsu & Young Advertising (China), was established in 1986, marking the beginning of the end of the monopoly by state-owned ad agencies.

The cooperation of foreign ad agencies with their Chinese partners was marked by conflicts from the very beginning. At the early stage, foreign ad agencies preferred to form a partnership with state-owned ad agencies because they regarded the latter's advertising experiences in Chinese society and their close relationships with local media and local government would be helpful for business development. However, there were huge differences in almost every aspect of business management between foreign ad agencies and Chinese state-owned ad agencies. While foreign ad agencies preferred to set up their relationship with clients based upon the quality professional services they provided, Chinese state-



owned ad agencies were used to establishing personal connections with clients and media via distributing gifts and bonus to them during the operation. Besides, foreign ad agencies usually were confident and strong enough to select clients courteously in order to protect their professional reputation and insist on their own strategies in business development, while Chinese state-owned ad agencies often did the opposite. As a result of such incompatibility in professional and management paradigms, foreign ad agencies tried to set up joint ventures with state-owned enterprises in other industries or even state functional agencies, thinking that they could implement their (foreign ad agencies) established way of business practices in this way. But, communication between partners became even more difficult because most of these state-owned partners knew little about advertising. They also had the same mentality and routines of business management that state-owned ad agencies had. As a result, although the government had the regulation that foreign partner should not hold more than 50% of the share in a joint venture, foreign ad agencies had to break the rule to gain control in management. They negotiated agreement with their Chinese partners so that the former would hold the controlling share to call the shots in advertising production and business management the latter would stay away from the everyday management and operation of their joint ventures. Chinese government gave tacit consent to this resolution.

The rise of international ad agencies in Chinese market represented the beginning of marketization in Chinese advertising industry. The pace of the movement toward this direction started to pick up immediately after Deng Xiaoping's 1992 tour to southern China. In this tour, Deng called for accelerated market-oriented reforms. Facilitated by the frenzy of "marching to market," international ad agencies crowded into Chinese market with an unprecedented speed.

The number of international ad agencies operating in China jumped from 17 in 1990 to 516 in 1997 (*Yearbook of China Advertising*, 1998, p. 34). Meanwhile, the government also allowed individual Chinese to register private ad agencies since January 1993 (*Modern Advertising*, 4, 1999, p.13). This wave of marketization of China ad industry not only broke the monopoly of state-owned ad agencies, but also brought two inevitable challenges to states-owned ad agencies. One is the intensified competition, and the other is the trend of professionalization.

### **Competition and Professionalization:**

#### **Two Challenges Facing State-Owned Ad Agencies**

Certainly, state-owned ad agencies are competing with both international ad agencies and private ad agencies in China. However, due to a relatively short history, less strength and small size of private ad agencies, the competition between private ad agencies and state-owned ad agencies usually is not as intensive as that between state-owned ad agencies and international ad agencies, especially in terms of competing for big local clients. Therefore, this study is situated in the competition between state-owned ad agencies and their international competitors.

International ad agencies compete with state-owned ad agencies for human resources, media buying, and obtaining local clients. They usually provide higher salaries, more programs for training, and more opportunities for promotion to employees than the state-owned ad agencies normally do. As for media buying, by forming alliance and relying on huge advertising expenditure of their rich clients, international ad agencies are able to bargain with the Chinese media and get the lowest price. Although local media used to offer good rates to state-owned ad agencies due to the traditional close personal connections between them, under the pressure of



competition within media industry, they certainly prefer to do business with international ad agencies.

Meanwhile, international ad agencies also began to make earnest efforts to attract local clients. When they first entered the Chinese market, the international ad agencies did not seek for local clients. Almost all of these agencies started with the clients and brands that their parent companies were representing in other regional and global markets. However, along with the rapid growth of local enterprises and the development of international ad agencies themselves, more and more international ad agencies started paying attention to local clients after 1992. Coincided with this trend, local clients as well as some joint-venture enterprises also started to take initiatives to seek for advertising services from international ad agencies. For example, *Kelong* (a local brand of electric household appliances in Guangdong Province of China) once employed Leo Burnett and McCann & Erickson while *Liangmianzheng* (a local brand of toothpaste in Sichuan Province of China) and *Di Ao* (a joint-venture brand of medicine in Sichuan Province of China) employed DDB. It was also reported that half of the business revenue of Ogilvy & Mather (Beijing) came from local clients (*Chinese Advertising*, 1998, 2, p. 14). With this development, the state-owned ad agencies found themselves in a head-to-head competition with international ad agencies. One clear indication of such competition is that in almost all the bids for biggest local clients in China today, the real competition has been between international and state-owned ad agencies from the first-tier ad agencies in today's China. While the total billing of international ad agencies in the industry-wide billing in China increased from 0.6% in 1990 to 6.8% in 1997, that of state-owned ad agencies dropped from 88.5% in 1990 to 60.8% in 1997 (Chinese Advertising Association, 1998). Another indication of the increasing potency of international ad agencies comes from the statistics showing that

while nine of the top ten ad agencies ranked by annual billing in China were domestic state-owned ad agencies in 1992, only three were left in 1997 (Table 1.1).

**Table 1.1 “Top Ten” of China Ad Agencies  
Ranked by Annual Billing (10, 000 yuan), 1992 & 1997<sup>1</sup>**

Rank	Ad Agency, 1992	Billing	Ad Agency, 1997	Billing
1	Eastern, Zhuhai	9600	*Saatchi & Saatchi, Beijing	142000
2	The Great Wall Inter.	9182	*McCann & Erickson	76149
3	CNUAC <sup>2</sup>	8605	*J. Walter Thompson.	64928
4	Shanghai Ad.	8483	*Ogilvy & Mather, Shanghai	62561
5	Shanghai Ad & Decoration	7840	*Grey, Beijing	47600
6	GDAC <sup>3</sup>	7500	CNUAC	38987
7	*Dentsu & Young	6223	*Dentsu, Beijing	37168
8	Golden Horse	6033	ACGP	36428
9	Beijing Ad.	5000	Shanghai Ad.	34717
10	Guo An Ad., Beijing	4770	*Euro RSCG Ball, Shanghai	30000

\* *international ad agency*

The trend toward professionalization is another challenge that the marketization of Chinese advertising industry brought to state-owned ad agencies. On the one hand, local clients are becoming more and more unsatisfied with the unsophisticated and fragmented services that state-owned ad agencies provide. Such services are not effective in sales promotion or market expansion for clients. Under the pressure of fierce market competition, local clients demand professional services from ad agencies. Professionalism here means comprehensive quality services, special knowledge and skills in marketing and service-oriented posture. On the other hand, international ad agencies are promoting their professional images strategically to the public. They introduced professional standards for advertising services in media; they actively participated in all the activities organized by national or local advertising associations; they even took the initiative to offer free training programs on advertising and marketing for local clients as well as local ad agencies.

Through such efforts, international ad agencies not only effectively established their professional image in the mind of the public in a short period, but also become a

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<sup>1</sup> Source: China Advertising Association; According to the official of China Advertising Association, the ranking of “top ten” in 1998 was much close to that in 1997. In addition, revenue of CNUAC was 480 million Yuan, GDAC was 450 million Yuan, Shanghai Advertising was 420 million Yuan. The top one was still Saatchi & Saatchi, whose revenue was above 1,600 million Yuan in 1998.

<sup>2</sup> CNUAC: China National United Advertising Corporation



key advocate of professionalization of the whole industry. At least three things can be treated as significant indicators for the trend toward professionalization in Chinese advertising industry. First, the ability of providing full-service to the clients, like international ad agencies did, has become a common standard for clients to evaluate the qualification of an ad agency. Second, there have emerged a great number of specialized units such as market research companies, media research companies and ad production studios, which are associated with ad agencies to provide both high quality and comprehensive services to clients. Third, China's first advertising law went into effective in 1995. It provides the legal framework for the operation of ad agencies, clients, media, as well as the administration of the government in advertising production.

While moving toward more intense market competition and higher levels of professionalism, state-owned ad agencies had a great number of disadvantages. Compared with their international competitors, state-owned ad agencies are severely short of the resources such as professional personnel, financial support, marketing experiences, knowledge and skills in not only advertising production but also agency management. To survive in the fierce competition, state-owned ad agencies must keep effective and coherent internal management, on the one hand, and project a professional image in the industry, on the other. Many state-owned ad agencies went out of business simply because they were unable to cope with the market competition that was increasingly operating in the professionalist framework set by international ad agencies.

Still, three local ad agencies remained among the top ten agencies in 1997. All of them are state-owned. Although their positions among the top ten are slipping compared with the international competitors, each of them continues to see growth in its annual billing. But, why are some state-owned ad agencies, once seemed to be obviously inferior in their competitiveness, able to survive and adapt to a changing

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<sup>3</sup> GDAC: Guangdong Advertising Corporation



environment while some others cannot? This study addresses this question through a case study.

### **The Basic Conceptual Framework and A Chapter Outline**

This study takes a spatial perspective in which an ad agency as an organization is seen to be operating in partitioned organizational and institutional spaces. The internal management of the agency takes place in a back region, where mobilization and configuration of resources take place. In this region, the ad agency makes strategic uses of the authoritarian mode of management that is characteristic of a state bureaucratic agency. It allows the ad agency to mobilize and concentrate the resources for targeted client and/or crucial project. In this region, personal charisma, elitism, authoritarian domination, conformist submission, and interpersonal trusts and connections are heavily relied upon. In the front region, where the ad agency comes to direct competition with other ad agencies, especially international ad agencies and where the ad agency interacts with potential clients, the ad agency puts on the mask of professionalism that is characteristic of the international ad agencies. Here, the professional standards such as comprehensive and quality services, dependability, reliance on systematic market data, and so on, are used to design and evaluate the ad agency's activities and work. Such combination of the different paradigms in different organizational and institutional regions enables some state-owned agencies to compete effectively, although clumsily with international ad agencies, as the bidding scene described at the beginning clearly shows. In later chapters, some theoretically instructive elements of the bidding scenes will be made clearer with more theoretical and empirical substantiation. The intra- and inter-organizational activities that partition and then connect the front and back regions consist of the activities that are both considered routine practices under the system of a planned economy and non-routine practices that are tied to marketization. Further,

state-owned agencies also selectively adopt some non-routine practices and transform them into routine practices, when such non-routine practices are found effective in bringing in new accounts of important clients and/or leading to industry-wide awards for creative works. This perspective is particularly suited for us to see not only how an ad agency operates in a changing industry but also how an organization develops in a transitional society. It allows us to connect the two, with the former being specific and examined directly through my empirical observations and the latter more general and inferred through connecting the specific observations and general theoretical constructs. Chapter II will be devoted to articulating the theoretical framework.

Chapter III is about the methodology of this study. It presents the case that I selected, the procedure of fieldwork as well as the kinds of data collected. I will also discuss my identity during the data-collection and the validity of my interpretation of the qualitative data gathered for this study.

In Chapter IV, I will illustrate how practitioners at PAC, the state-owned ad agency that I chose for my case study, partition their physical space, geographical space, and organizational and institutional space in its day-to-day activities and management. I will argue that it is through this spatial partition can PAC routinize its practices as well as manage its performances in other regions. Also, such spatial partition can be regarded as a result of marketization of ad industry in Chinese society.

In Chapter V, I will use “bidding for a big local client” as a critical moment to demonstrate how PAC members can strategically patrol their spatial partition in routine practices and stage an excellent performance in competing with international ad agencies by mobilizing the limited resources under authoritarian management.

In Chapter VI, I will try to answer my research questions and discuss on the implication and generalizability of my conclusions drawn from a case study.



## **Chapter II**

### **Space, Spatial Partition and Situated Practices**

#### **of A State-owned Ad Agency**

##### **Strategic Practices, Locale, and Institutional Changes**

The bidding event described at the beginning of the last chapter was theoretically instructive for me to think about the intra- and inter-organizational dynamics and tensions in China's advertising industry. Clearly, PAC's presentation performance was a strategic conduct to win the competition with international ad agencies. They did so by stressing providing custom-tailored service, flexibility in satisfying the client's needs, creative works, meticulously managed and rehearsed performance, and even nationalism. Such conduct turned out to be a winning one in part because it took place in a unique locale. Here, locale refers to not only the physical location of the bidding event, but also the time-space coordinate in the socially constructed space that is constituted by institutional rules and regulations as well as the institutional relationships among the key players in the Chinese advertising industry. It structures the bidding event as a key form of agency-client interaction through which a multi-million yuan business deal is made. It is the unique configuration of such locale that renders institutional significance to the practices performed at the bidding event and more generally, the practices of ad agency management and advertising production.

In essence, this way of viewing the bidding event defines what this study is all about, that is, the formation of the rules of the games, the routine practices, and the highly contingent interactions among the players of the Chinese advertising industry. Theoretically, then, this study sits squarely in the sociological tradition of analyzing

institutions and institutional changes through examining actors' situated practices that continuously reproduce an institution and constitute institutional changes.<sup>1</sup>

“Locale” and “strategic practices” together offer a theoretical point of departure for this study. “Locale,” as Giddens (1979) points out, is a more preferable term to that of “space” because the former refers to not only the physical environment *in* which social practices take place but also the spatial significance that is rendered and sustained by the practices, especially the discursive dimension of such practices. A locale then is not just a physical setting. It also refers to the spatial spread of the web of significance that is woven by social actors through their practices. The social actors interact with one another through such practices, whether the interacting parties are all physically present in an action setting or not. Such interactions are highly contingent upon the larger social and historical context, which is the spatially extended web of significance. Viewed in this way, any actor's action has a context and contributes to the context that conditions other actors' actions. A locale of social practices is thus constantly reconstructed.

A locale is thus a constituting segment of something larger and temporally more enduring that we may call social systems. In Giddensian terms (Giddens, 1984), a system has structural properties in that the constituting practices are patterned and repeated through being regulated by some distinct set of rules. In a system, there are rules and resources which social actors can draw to devise and implement their actions. Through their choosing actions, social actors also surrender to the structuring force of a

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<sup>1</sup> The relationship between practices and institution is highly complex. While institution, adopting the economist Douglas North's (1991) definition, refers to the rules, formal and informal, explicit and tacit, that regulate actors' practices; actors' practices also reproduce and reshape such rules. Anthony Giddens (1979) even argues that “institutions may be regarded as practices which are deeply sedimented in time-space: that is, which are enduring and inclusive ‘laterally’ in the sense that they are widespread among the members of a community or society” (p. 80). “Institutions appear as unexplained parameters within which actors organize their practical activities” (p. 81). “Institutional analysis,” therefore, “places an epoché upon strategic conduct, treating rules and resources as chronically reproduced features of social system” (p. 80).



social system in determining the contingency of their actions on other actors' actions or reactions. Through such interplay between actors' willing choices and the structuring power of a social system, contingent social actions and interactions unfold. In this interplay, a social actor's action may be considered strategic if it is based on the actor's knowledgeability in choosing a combination of the rules and resources that would increase the likelihood of the subsequent actions and reactions moving toward the direction of this actor's intended or desired goal. In simpler terms, a practice will be considered strategic if it fits the configuration of the locale where the practice takes place. Thus, "strategicness" requires actor's knowledgeability and conscious planning and design, but it is not determined exclusively by the subjectivity of a social actor.

To best and most efficiently utilize the rules and resources of a social system, an actor may move to construct a concrete action locale through spatial partitioning. Here, spatial partitioning refers to configuring not only the physical setting of an action but also a particular web of institutional relationships so that certain rules become more applicable and certain resources can be readily drawn. Goffman (1973) is among the first social scientists to reveal the significance of spatial partitioning in the everyday human activities and interactions. He discusses the significance of "region," a.k.a., locale, as a concept in social analysis. Based on the premise that regions differ in how they are confined and demarcated and how they may structure the "appropriate" activities, Goffman differentiates front and back regions. The front region is the place where the performance of human interactions is presented, while the back region is the place where such-performance is prepared and rehearsed. While the former is open to other actors participating in a social interaction, the latter is closed and heavily patrolled.

Borrowing heavily from Goffman's analysis, Giddens (1984) advocates the notion that social interaction should be examined in relation to different locales that are "internally regionalized." The regionalization should be understood "not merely as

localization in space but as referring to the zoning of time-space in relation to routinized social practices” (Giddens, 1984, p. 119). Here, routine practices refer to the habitual and patterned activities that social actors repeat in everyday social life. The emphasis of Giddensian analysis is on the situated nature of social interaction, and the reinforcement between the regionalization of the locales and the routinization of social practices that take place in the partitioned locales.

These ideas inspired me to establish the theoretical perspective taken in this study and provided a set of analytical tools for my case study. I will refer to the theoretical perspective that utilizes the concepts derived from these ideas a “spatial perspective.” Basically, the spatial perspective treats an organization, in this case, an ad agency, as a social actor. It places an emphasis on the significance of spatial partition in organizational operation and advertising production, and advocates analyzing the organization’s practices in these two areas in relation to the structure and institutional rules of the advertising industry in the unique macro situation of China’s reform.

The reform program that has been transforming the Chinese society can be viewed as a mode of spatial partitioning. It stimulates reforms in the economic sphere but not the political sphere, in spite of the interlocking linkages between an economy system and a political institution. The political jargon, “establishing the socialist market economy” advocated by Chinese government since early 1990s, discursively legitimizes such kind of partitioning in order to structure the social practices of reforms in China. As a result, the idea of planned economy through state bureaucratic control and the ideology of market economy are hybridized in many areas of the contemporary Chinese society, including the operation of state-owned enterprises and marketization of certain industries.

As shown in the previous chapter, during the marketization of advertising industry, state-owned ad agencies have to compete with international ad agencies for



big local clients by providing more comprehensive services to clients than before and by managing their performance in the “front region” according to the professional standards that are championed by the international ad agencies. At the same time, confined in the cage of state control, in order to meet the requirement of government as well as the need of themselves to be effective in resource mobilization, advertising production, and performance management in competition, they have to maintain the authoritarian-style management in the “back region.” This partition of the front and back regions and the selective uses of different paradigms of operation are becoming a defining characteristic of the other state-owned enterprises. By examining how the two paradigms of organizational management are differentiated and incorporated in the operation of a state-owned ad agency, we can learn more about the significance of organizational behavior in a transitional society. In essence then, a spatial perspective will become a theoretical scaffold for me to analyze the case of a state-owned ad agency and to link this analysis to the macro social changes in a transitional society such as China.



## Key Concepts and Their Linkages

To construct such a theoretical scaffold for molding the empirical evidence into a coherent story, a set of key concepts need to be further explicated and their inter-relationships substantiated.

### *Space*

In spatial perspective, all practices take place in specific locale defined in both physical setting and the social and historical context. All practices by social actors have a spatial dimension, so are organizational structure and institutional arrangement. Space thus refers to action locale, situatedness of social practices, and the degree of tolerance for a variety of social practices that is embedded in an organizational structure and institutional arrangement.

For this study on a state-owned ad agency, I differentiate three spatial dimensions that are significant to the organizational dynamics, the physical, the geographical, and the institutional. The physical space of an ad agency refers to the concrete physical setting, for example, offices, where the agency's organizational routines and production activities take place. This dimension is significant because the partitioning of such activity settings is not only a result of certain structural constraints (e.g., whether an ad agency rents its office space or owns its own office building) but also among the symbolic markers of the agency's conceptions of its internal structure, activity flow, and relationships with other players.

The geographical space refers to the location of an ad agency in a particular district of a city and a particular administrative region of the country. This dimension has significant symbolic and material significance. The geographic layout of a city is often embedded with the configuration of the power structure of the city (Soja, 1989). For example, in a national or provincial capital, very often, the geographic center that

orients the city and the life in the city is defined by the location of the state or provincial government offices. In a traditional industrial or commercial city, the business district most likely defines the center of the city's geographic orientation. Then, the geographic location of an ad agency in a city may indicate degrees of not only practical but also symbolic proximity to the city's power center. Geographic location of an ad agency in a particular region of a country has the similar connotation and practical implications. In addition, this aspect of the geographic location may also suggest the features of the ecological environment of an ad agency, including, for example, levels of economic development of the region, degrees of openness of the region's market, levels of competition of the advertising market in the region, and so on. All of these factors may function as constraints upon an ad agency. The other side of the same coin is that they indicate the configuration of the distribution of the resource vital for an ad agency.

Social relationships and the institutional rules, patterns and norms within and without an organization constitute the third dimension of space, the institutional space. Because institution enables and also regulates social actors' practices, the institutional space is thus related to the degree of tolerance of the practices that may depart from the established rules, norms, and regulations. Such practices may not be prescribed by the existing institution and thus relative to the patterned and repeated practices that constitute an institution, they may be called "non-routine" practices. Specific to the advertising industry, within an ad agency, the institutional space may be defined by its organizational structure, the division of labor, and the hierarchy in management. This internal institutional space may be differentiated from but related to the advertising law, government regulations, and patterned relationships with media, clients and other ad agencies.

Although differentiated analytically, these three spatial dimensions are related to one another in the operation of an ad agency. The partition and display of an ad



agency's physical space may be influenced by the structure of the internal institutional space and that of the external institutional space. Meanwhile, the partition and display of an ad agency's physical space may facilitate to certain configuration of its institutional space. For example, the elegant decoration and creative partition of an ad agency's offices are useful to establish a professional image and helpful for internal management. Similarly, the geographical location of an ad agency may heavily affect its institutional space particularly in a country of large size like China. The southern coastal cities compared with most of inland cities have higher degrees of openness to foreign investment, higher levels of marketization, higher levels of economic development, and lower degrees of state control. Consequently, the institutional space may be more beneficial for innovative activities of local ad agencies in these areas than that in the inland areas. Different configurations of the institutional space in the coastal cities and the inland cities may also influence the partition and display of the physical spaces of the ad agencies in these areas differently. In short, the physical, the geographical and the institutional space together form a locale for an ad agency's practices in advertising production and agency management.

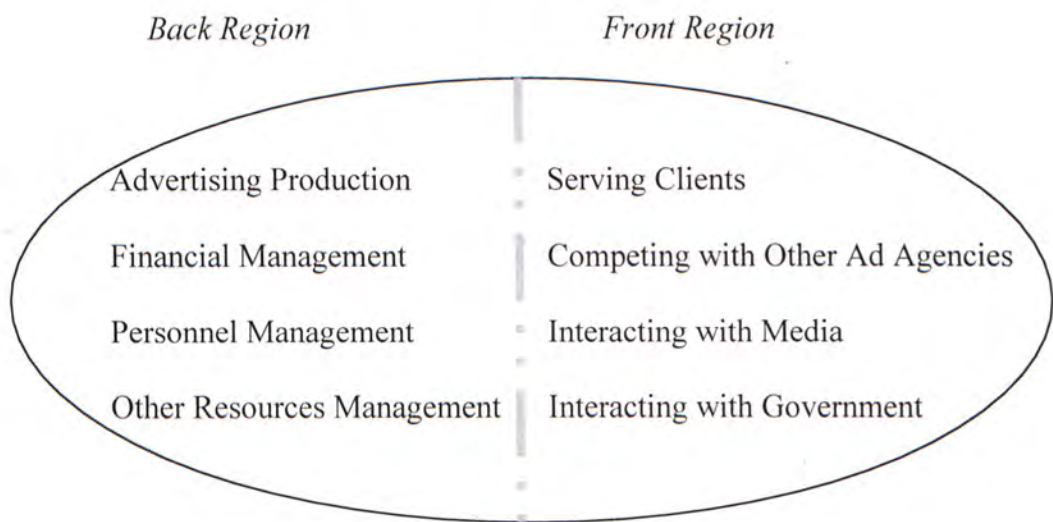
### *Front Region vs. Back Region*

Following Goffman (1974), we can differentiate the locale of an organization's activities into the front and back regions. The front region serves as a site for performances and activities in an ad agency's management of its ecological relationships with other players in ad industry. The back region is for an organization's resource deposit and mobilization as well as internal management. The activities and management in the back region can be regarded as being preparatory for the organization's performances in the front region.



Figure 2.1 illustrates the typical activities of an ad agency in the front and back regions. (Despite analytical distinction made here, there is no clear-cut boundary between the front and back regions. This point will be discussed in details in Chapter IV).

**Figure 2.1 Typical Activities of An Ad Agency  
in Front and Back Regions**



For a state-owned ad agency, the front region is constituted by its interactions with big local clients, media, international ad agencies and the government department in charge. The back region is constituted by the activities centered on advertising production, for which resources are mobilized and configured through effective management. Resources for a state-owned ad agency include not only financial resource and human resource, but also the social resources—such as its relationships or personal contacts with clients, media or government—and the symbolic resources—such as national character for being affiliated with the state ownership. In addition, the back region of a state-owned ad agency also serves as a region for it to handle its relationship with its nominal proprietor, the Party-state, and its direct supervising

government agency or department. Here, “handling” such relationship carries with it two meanings. On the one hand, the Party-state implements its control in ad industry or at least in the vital areas such as financial management and personnel management of a state-owned ad agency through its ownership and the state regulations and direct bureaucratic interventions based on such claim. On the other, the management of the state-owned ad agency may struggle to gain more autonomy in the agency management without directly confronting the ideology of the state control or overtly resisting such control. Consequently, the two parties may need to manage their tension-filled relationships in the back region. For example, the supervising government department may impose certain rules and regulations over the appraisal and promotion of the employees of a state ad agency through the organizational channel of the Party. The management of the ad agency may maintain the Party organization and its activities within the agency but at the same time uses it as a vehicle to mobilize the employees for the agency’s business activities.

Before the marketization of Chinese ad industry, the spatial partition of the front and back regions might not bear significant differences in the overall framework of the management of state-owned ad agencies. Because state-owned ad agencies at that time had a virtual monopoly of the advertising industry guaranteed by the Party-state, there was no severe competition or demand of providing full-services to clients in front region. Without these two conditions, the state-owned ad agencies could operate, very much like all the other state-owned enterprises in China, could maintain the same authoritative and bureaucratic mode of management both in the front and back regions. It was the two challenges, competition and professionalization, brought by international ad agencies that compelled state-owned ad agencies to adopt and devise some non-routine practices in the front and



back regions. They had to change their paradigm of management at least in the front region as international ad agencies surged in the Chinese advertising market. In relation to such changes, they also had to adapt their mode of management in the back region in order to support the effective performance in the front region. However, while competing with international ad agencies in professional advertising practices, state-owned ad agencies still need to maintain the state ownership and the constraints in organizational structure and the mentality in management derived from the planned economy ideology that come with the state ownership. That is to say, due to the specific social and historical context during the marketization of Chinese ad industry, the spatial partition in advertising practice becomes very crucial for state-owned ad agencies. They are engaged in a new game, in which the opponent is strong while the rule is new. At the same time, the bureaucratic regulations imposed upon state-owned ad agencies and the frequent over-zealous interventions from their supervising government agency or department make it difficult for them to have a whole-sale adoption of the management framework from international ad agencies. The management of state-owned ad agencies also does not have the training and experiences in implementing that framework of management. As a result, the old framework of management of state-owned enterprises remains an effective means, if not the only one available for state-owned ad agencies to mobilize limited resources in competition. Partition the front and back regions and patrol the boundaries of the two strategically become vital for a state-owned ad agency to survive in the competition, to develop during the transition of the Chinese society, and to adapt to the new environment. Precisely because of these reasons, spatial partition into the front vs. back regions is suited for me to understand not only the development of a state-owned ad agency during the



transformation of Chinese ad industry but also the transformation of the ad industry itself.

### *Routine vs. Non-routine Practices*

In Giddens's structuration theory, institution and institutional changes are approached with another dualism, that of routine and non-routine practices. Routine practices of an ad agency refer to its daily activities and the other activities that are repeated and patterned in either the front or back region. Non-routine practices therefore refer to the innovative activities compared with the routine practices. Routine practices are prescribed by the existing institutional rules and regulations and supported by the existing configuration of the institutional space. In addition, routine practices also reproduce the existing institution and its spatial configuration. Non-routine practices tend to be innovations that may be inspired by new opportunities that arise from the changed environment or compelled by the changed environment. They are important for an ad agency's adaptation into a changing environment and are critical for institutional changes. Non-routine practices, if tolerated by the existing institution, as indicated by the aversion of any risk of institutional sanction and by the positive returns either in monetary or symbolic terms, may be repeated. Through sufficient repetition and modification, they may be stabilized as routine practices. When such transfer from non-routine to routine practices takes place, there is a possibility of institutional change. Of course, such transfer in specific time and space. Due to changed environment, some practices that were routine in the past may become non-routine in present. Similarly, some practices that are routine in the front region may be non-routine in the back region, if the two regions involve different sets of institutional rules and regulations. That is to say, whether a practice is routine or non-routine would depend on the nature of a locale—this is determined by the situated nature of social practices.

Before the marketization of Chinese advertising industry, the routine activities for a state-owned ad agency usually included keeping frequent contacts with its supervising government department, waiting for order from clients allotted by the government, doing media booking, drawing layouts or producing billboards, and organizing its employees to take part in weekly “political study” (*zhengzhi xuexi*) sessions. The forces of competition and professionalization brought by the insurgence of international ad agencies compelled state-owned agencies to take risks, to seek for innovations in both its internal management and its dealings with other players in the advertising industry. They have to take the initiative to promote themselves to clients or bid for big local clients with international ad agencies. In such bidding, they have to adopt the rules of the game that are defined in the framework of professionalism. They have to bargain with media as well as other suppliers of resources for a lower price in order to get more profit. They have to re-configure the internal institutional space by adjusting the organizational structure and establishing additional departments of business development and market research. They have to attract as well as to keep personnel who have professional skills and creative talent in advertising production.

However, the non-routine practices are only tolerated under the constraint that the state ownership stays intact. That is, no innovative measures in alleviating state control over state-owned ad agencies, especially in the area of internal management of financial and human resources are easily implemented. A large part of the reason is that none of those actors who call the shots in these areas that are considered vital to maintain the state ownership experiences the same competitive pressure from the market, nor do they have the same professional understanding of advertising production. As a consequence, the routinization of non-routine practices for state-owned ad agencies has been taking place mainly in the front region, where state-owned ad agencies are compelled to operate according to professional standards in dealing with the two challenges of



marketization. Because a state-owned ad agency is also business operation and its supervising government department extracts certain portion of its profit as the department's revenue, innovative measures in the front region are often tolerated and sometimes even encouraged. Once the non-routine practices are adopted as new routine practices in the front region while the old routine practices in the back region are remained, spatial partitioning into the two regions is reinforced and its significance in the operation of an ad agency is elevated.

At times, however, devising and implementing some non-routine practices are also related to strategically partitioning and patrolling the front and back regions. If certain innovative practices in certain areas are considered too risky if performed in the front region, they may be adopted through discursively managing their significance in the front region, thus effectively placing them in the back region. Similarly, if a measure for personnel resource management is not permitted by the state regulations, it may be adopted as a non-routine practice in the front region as a need to win over a particular client. For example, a particular creative talent may be hired on contractual basis to deal only with the production matters if the strict personnel management regulations in a state enterprises prevent the ad agency to hire him or her as a permanent "state employee" (*guojia zhengshi zhigong*) due to the shortage of quota or the salary cap. Similarly, under the framework of professionalism, all the competing ad agencies participating in a bid are required to present their proposal and creative works independently to the client who called for the bid. A state-owned agency may take advantage of its social networks to schmooze with some key managers of the client to get some "insider information" of the client's preferences and criteria. By doing so, the state agency is turning its interaction with the client, which should take place only in the front region, into a back-region dealing.

### *Authoritarian-style vs. Professionalist-style Management*

In *The Theory of Social and Economic Organization*, Max Weber (1947, p. 328) differentiated three types of legitimate authority called legal authority, traditional authority and charismatic authority. The legal authority rests on rational grounds, where the legitimacy of authority is based upon normative rules that are objective, impersonal, unbiased and rational. The legal authority advocates a kind of bureaucratic administration that is essentially controlled by “technical specialists” (p. 338), say, professionals. The traditional authority rests on “an established belief in the sanctity of immemorial traditions” (p. 328), which guarantees the traditional rights of dominant groups such as aristocracy or landholders. The charismatic authority depends on the specific individual personality of leaders. It develops the administration of a system to be highly relied on a few elite who were regarded as endowed with “exceptional power or qualities” (p. 358).

Following Weber’s explication on legitimate authority and bureaucratic administration, I differentiate two paradigms in the organizational management hybridized in Chinese advertising industry, the authoritarian-style management and the professionalist-style management, that are dominated by charismatic authority and rational-legal authority respectively.

The authoritarian-style management is a mode of management that is driven by the mentality of bureaucratic hierarchy and is characterized by the reliance on personal charisma of key leaders. It is typical, albeit not exclusive, in the management of state-owned enterprises in a planned economy system because it yields a logical and practical fit with the authoritarian and commandist system. Under such kind of organizational management, people are only required to execute orders or instructions from leaders and managers. In addition, the currency for



leadership is a leader's charisma as well as subordinates' loyalty to some specific individuals. As a result, the initiatives of most of the people are oppressed in the operation while the development of an organization is heavily relied upon a few elite within an organization. For state-owned ad agencies, this style of management shows up in the front region as the activities of state-owned agencies focusing on establishing personal connections with the supervising government departments or agencies and that with clients and media. There is much less reliance on market research or long-term planning in business development. In the back region, communication and cooperation are neglected while labor division among members or departments and their responsibility are poorly defined. The organization of a state-owned agency centers on a few elite people on the top. They have the authority to do things in their will and use their charisma or status to force devotion, both psychologically and in terms of time and energy, from the employees.

By professionalist-style management, I mean a mode of management that articulates professional standards, equality and due process, as well as rationalized procedures in organizational operation. It is a typical mode of management for modern organizations, such as international ad agencies, which are developed in the system of market economy. Under this framework of management, international ad agencies advocate their relationship with clients to be based upon their professional advertising services that are comprehensive and high in quality. In addition, market research is most essential in their services. The performances in the front region are always centered on establishing a professional image to clients, media, government and the public. For that, in the back region, members and departments are encouraged to communicate and cooperate with one another while their respective responsibilities are clearly defined and they must follow the established production

flow structure. Also, to guarantee a high quality of their services and good reputation, international ad agencies also provide required training to their employees. Planning and institutionalization are highly emphasized, and calculation of cost and profit is required either in business development or in internal management. Benefiting from the professionalist-style management, international ad agencies have achieved long-term development and they have established their services as brand names with high values in the advertising market.

It is clear that the authoritarian-style management fits the planned-economy ideology while the professionalist-style management the logic of market economy. However, in a transitional society like China where the state-initiated marketization is taking place, which mode of organizational management do the managers in state-owned ad agencies adopt? If they maintain the authoritarian-style management as before, how could they keep competitive in the market where the professional standards are set by international ad agencies? If they implement professionalist-style management during their agency's operation, how could they keep their agency within the confine of state ownership? Or, if there is an evolution in the management of state-owned ad agencies, then how does it take place? These questions are all related to spatial partitioning and the situated practices of state-owned ad agencies in varied regions.

### *Linkages among the Key Concepts*

These concepts allow me to construct a theoretical scaffold to examine the intra- and inter-organizational dynamics of a state-owned ad agency during marketization of Chinese ad industry. Before marketization, state-owned ad agencies monopolized Chinese advertising and their routine practices either in front



region or in back region were both under the authoritarian-style management. Facing the two challenges—competition and professionalization—brought by international ad agencies, state-owned ad agencies have to change their routine practices under the authoritarian-style management in order to maintain competitive in the market. However, during such a transformation process, state-owned ad agencies have to maintain their state-ownership through which the government maintains the state control upon ad industry while state-owned ad agencies can still draw some resources. It means that state-owned ad agencies have to maintain the authoritarian-style management at least in the back region and adopt the professionalist-style operation in the front region. Therefore, spatial partitioning becomes a particular significant sphere of the state-owned agencies' strategic maneuvering. Then, how do state-owned ad agencies partition the locale of their activities and change the mode of management as well as routine practices in various regions? How do they patrol the partitioned regions and incorporate various elements from the two modes of management to maximize their market success? I will tackle these questions with empirical evidence in following chapters.

## **Chapter III**

### **Methodology**

#### **Case Study and Case Selection**

The approach I chose for this research is case study. At least two reasons compelled this choice. One is that my central question focuses upon state-owned ad agencies' operation as well as their interaction with international ad agencies. Case study has the advantages of allowing me to explore in-depth such kind of "contemporary phenomenon" over which the researcher has little or no control (Yin, 1994, p. 8-13), compared with other strategies of doing social science research such as experiment, survey, historical or archival analysis. It allows me to deal with a whole variety of evidence—not only documents and artifacts, but also interviews and observations—while investigating the intra- and inter-organizational dynamics of state-owned ad agencies taking place in China. My choice of the case-study method is also guided by the specific theoretical perspective that I take in this study. I intend to apply a spatial perspective to understand how members of state-owned ad agencies partition their space and correspondingly manage their performances or activities in various regions. However, such kind of spatial partition as well as the correlated activities in various regions cannot be understood well unless the particular configuration of a locale and the specific interpretive scheme held by the actors are observed and described. Borrowing Geertz's terminology, "being there" is crucial for a researcher who examines the intra- and inter-organizational dynamics through a spatial perspective. Therefore, case study is called for to achieve the status of "being there" via participant-observation and in-depth interviews.



But, there are 4,993 state-owned ad agencies now in China (*Yearbook of Chinese Advertising*, 1998, p. 27), which one should I select as my case?

As I have stated in the first chapter, my theoretical concern at the organizational level is how a state-owned ad agency with a great number of disadvantages can keep growing in competition with more “professional and advanced” international ad agencies. Due to the severely uneven levels of economic development in China, not all the state-owned ad agencies around the country are strong enough to compete with international ad agencies. Instead, only some state-owned ad agencies located in relatively developed areas have the capacity or “opportunity” to fight with international ad agencies. In 1997, only 25 ad agencies—16 were state-owned whereas 9 were international—owned an annual revenue over 100 million yuan (US\$ 12 million) and their revenue was 39.8% of that of the entire ad industry in China. The 16 state-owned ad agencies can be regarded as “the first-tier” ad agencies in China. They once had benefited the most from the market monopoly before the entrance of international ad agencies, and they are still among the giants in Chinese ad industry today. Their competition with international ad agencies becomes extremely fierce in recent years because they still dominate the market niche composed of big local clients in China. The two groups of ad agencies regard each other as opponents in almost every activity in advertising practices, particularly when bidding for big local clients. As the general manager of a first-tier state-owned ad agency once told me, during the recent years, each time they attended a bid, they encountered international ad agencies as competitors. For me, the first-tier state-owned ad agencies would be more illuminating than other state-owned ad agencies in providing “*opportunity to learn*” (Stake, 1994, p. 243, italics original) for studying the intra- and inter-organizational dynamics of state-owned ad agencies during the marketization of Chinese ad industry.

Among the 16 first-tier state-owned ad agencies, I selected PAC to be the case in this study because, as I will articulate further in the next chapter, PAC was one of the 19 ad agencies—all are state-owned—that have the longest history in China. It was founded in 1979 as a result of Chinese government's promotion of the economic reform and open-door policy. It has experienced both the golden age due to the state-owned ad agencies' monopoly in advertising, and the hard time caused by the insurgence of international ad agencies in China. In spite of the state ownership and a great number of the same disadvantages as other state-owned ad agencies, PAC still keeps growing annually and has remained among the “top ten” ad agencies of China for almost nearly 10 years. Further it has defeated international ad agencies in all the bids for big local clients since 1997. PAC's organizational management as well as its activities during the marketization of Chinese ad industry may constitute a very informative locale for me to tackle my research questions.

### **Procedure of Fieldwork**

I arrived at Phoenix City on June 23, 1999. Before that, my advisor's friends had called two of their friends in PAC respectively to arrange my intern there. The first is David,<sup>2</sup> who is the Planning & Creative Director in Business Bureau Two of PAC, and the second is Robert, Deputy General Manager of PAC. To call the two persons respectively was a very thoughtful arrangement for my access to PAC since it avoided overloading either of them. David offered a concrete position for me to stay whereas Robert guaranteed the legitimacy of my “intrusion” into the locale for PAC members' routine practices. Also, it was suggested to me to go there as an student intern rather than a researcher—the former was useful to them and thus would provide me a better

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<sup>2</sup> All the informants are referred to in pseudo names to protect their identity. So are the agency studied and the city in which the agency is located.



positioning in the organization to gain access to its everyday operations and the information on the organization's business activities.

My fieldwork lasted for about two months (See details in Table 3.1.). I spent three weeks working in Business Bureau Two of PAC under the supervision of David. During the three weeks, although I was an intern, PAC members treated me as a qualified copywriter and invited me to join in different teams serving different clients. It developed a great number of opportunities for me to find out the routines not only in advertising production in PAC but also in the interaction between PAC's employees and clients. After that, I put effort on getting an approval to participate in a "significant project" (*zhongtouxì*) of PAC—"sealed-off" (*fengbi*) preparation for a bid for Dragon, one of the biggest local clients in Seaside Province. The "sealed-off" preparation was regarded as the magic weapon and thus was highly secretive at PAC. Through this procedure, PAC had won all the bids since 1997. Working day and night during one-week-long "seal-off" together with key members of PAC, I comprehended more about PAC's activities, especially the mentality of management in the back region during the time when they were preparing for competition with international ad agencies. I spent another week visiting J&J, an international ad agency in Phoenix City, and collected very comprehensive information on its operation. Then I spent a few days sitting in the conference room in Dragon Company, as the only "outsider" (*juwairen*), watching the presentations given by PAC and J&J in their bid for Dragon. Attending a bid allowed me to observe the performances of a state-owned ad agency and an international ad agency in the front region. Finally, I spent two more weeks to collect the latest information on the development of Chinese ad industry and to conduct interviews with some managers of other first-tier ad agencies, scholars of advertising research and officials of Chinese Advertising Association. These interviews were designed to help

me to gain an overall picture of Chinese ad industry. Table 3.1 summarizes the fieldwork.

**Table 3.1. Procedure of Fieldwork**

Time	Location	Identity	Interviewees	Focus of Interview & Observations
June 23 -July 13	PAC, Phoenix City;	Intern student; Copywriter	GM; Deputy GMs; Directors; Staffs of PAC	Spatial configuration of PAC; Routine practices in ad production and interaction with clients
July 14 -July 22	PAC's training center, Modern City	Copywriter	Key members of PAC;	Internal management and non-routine practices in the back region while preparing for a bid
July 23 -Aug.2	J&J, Phoenix City	Intern student; AE; PR	GM; Account Director; PR Director	Routine practices and management in ad production and professional image building
Aug. 3 -Aug. 4	Dragon Company, Modern City	Researcher	Manager of Dragon's Marketing Center	Performances of PAC and J&J in front region; Interaction of ad agencies with local clients
Aug. 5 -Aug. 6	Phoenix City	Graduate student; Researcher	Government officials in ad administration dept.; Key members of PAC;	Local ad industry in Phoenix and Seaside Province; Institutional space of PAC
Aug. 13 -Aug.22	Beijing	Graduate student	Officials of CAA; Scholars; Managers of first-tier ad agencies	Competition of domestic ad agencies with international ad agencies during marketization

During the two-month fieldwork, I conducted a series of interviews, in which some key members of PAC had been interviewed two or three times. I did not use a tape recorder while conducting such interviews since I wanted to keep my interviewees at ease. Whenever it was possible, I took notes during interviews. However, if an interviewee showed his/her resistance to this, I would rather take notes immediately after the conversation.



My observation in this study started as soon as I stepped in PAC's office building. I paid attention not only to the displays in the lobby, the partition of offices or the posters on the wall, but also to the routine practices, say, the pattern of interactions among PAC employees as well as that between PAC employees and their clients. In order to reduce the PAC members' sensitive reactions caused by my intrusion and develop my rapport with them, I worked hard—harder than a normal intern student or even the formal staff of PAC—to “domesticate” myself into PAC members' routine as soon as possible. I was working with people of PAC either day or night, either weekdays or weekends. We worked together, ate together, took breaks together and joked together. They invited me to join them in their business sessions with their clients and to discuss every problem in dealing with clients and media. I treated their difficulties as my own and I had done my best to help them. By doing this, I quickly became an “insider” of PAC both psychologically and physically. I practiced what PAC members were practicing, considered what they were considering and transferred their routines to be part of my own during the fieldwork. As a result, I came to recognize the differences between advertising practices of PAC employees in various regions of the organization and later on understand the significance of such a spatial partitioning in the operation of a state-owned ad agency. Regarded as a member of PAC by PAC employees, I could conduct interviews, formally or informally, at any time in a friendly, comfortable and relaxed atmosphere. I could participate in the activities of PAC employees in the front and back regions and observe their performances from within. I was even permitted to participate in PAC's “sealed-off” preparations, which were absolutely secluded from outsiders to prevent them from finding out how PAC employees were preparing their strategies, production process, and creative works.

**Data and My Identities in Data Collection**

My field notes and archival materials constitute my data. In the field notes, I recorded dialogues, settings of formal and informal interviews and my own understanding of the interviewee’s words. I also recorded what I observed in the field, the descriptions on the configuration of the physical space of the PAC’s workplace and PAC’s geographic location, activities of PAC employees in advertising production and their performances in the interactions with clients. In addition, I kept a fieldwork diary during the fieldwork to record my activities, research ideas sparking from data collection and organization, and my reflections upon my case and theoretical framework during the fieldwork. While my field notes concentrated on the specific case in this study, the archival data covered more general information about the advertising industry in Phoenix City as well as in China as a whole. Table 3.2 shows the kinds of data that I gathered and the forms that the data took.

**Table 3.2 Data collected in the Fieldwork**

Data Type	Content
Field Notes	Records of formal and informal interviews including dialogues, settings and my understanding of the interviewee’s words
	Observational descriptions on spatial configuration of PAC, and performances and activities of PAC in varied regions
	Research diary on the fieldwork procedure, research idea and my reflections upon my case as well as my theoretical framework
Archival Data	<i>PAC:</i>
	1. Biography (book)
	2. Brochure (1996 &1999)
	3. Internal circulate (1999)
	4. Press coverage (1996-1999)
	5. Advertisement sample (print, 1996-1999)
	6. Worksheet (1999)



	<i>J&amp;J:</i> <ol style="list-style-type: none"> <li>1. Brochure (copy, 1999)</li> <li>2. Completed version of presentation on J&amp;J (copy, 1999)</li> <li>3. Flow chart of production (copy, 1999)</li> <li>4. Worksheet; timesheet; evaluation forms for clients &amp; employees (1999)</li> <li>5. Press coverage (1994-1999)</li> <li>6. Advertisement sample (print &amp; TV commercial, 1998)</li> </ol>
	<i>Advertising industry in Phoenix City:</i> <ol style="list-style-type: none"> <li>1. Newsletter of Phoenix Advertising Association (1999)</li> <li>2. Regulations of Phoenix 4A Association (1999)</li> </ol>
	<i>Advertising industry in China:</i> <ol style="list-style-type: none"> <li>1. <i>Chinese Advertising</i> (1999)</li> <li>2. <i>Modern Advertising</i> (1998-1999)</li> <li>3. <i>International Advertising</i> (1999)</li> <li>4. <i>Yearbook of China Advertising</i> (1998)</li> <li>5. <i>A newsletter on China Advertising</i> (1981-1997)</li> <li>6. <i>Advertising Law of China</i> (1994)</li> <li>7. <i>Administration of Ad Agencies in China</i> (book, 1998)</li> <li>8. <i>Collection of Thesis on Advertising in China</i> (book, 1998)</li> </ol>

During the data collection that lasted for about two months, my identity to my informants in the field changed, depending on different settings in various locales. At PAC, only David and Robert were clear about my purpose in collecting data for a thesis and the topic of the thesis was on the development of state-owned ad agencies during the marketization of Chinese ad industry. To most staff members there, I was just a college intern or looking for a job. I felt a little bit bewildered when they took my presence as a student intern for granted rather than asking more information about me, such as where I came from, what I came here for or who introduced me to come here.

I did not find an answer until I recognized the operational pattern of PAC. As a state-owned enterprise, PAC maintained an authoritative mentality in its internal management. The staff of PAC pre-assumed that some top leaders of PAC must have authorized my presence. They did not bother to ask any further. In general, the more bureaucratic an organization is, the less internal communication is needed there—PAC leaders had no responsibility to explain their decisions to the staff. As a result, when I engaged in PAC’s “sealed-off” sessions in preparation for bidding for Dragon account,

those who had been served PAC for years regarded me as a new recruit while the real new recruits called me an “old buddy.” During the interaction with PAC members, I had no intention to hide my identity as a researcher and my research concerns if they would ask. However, PAC members first had no channel, or no interest to check out my identity and later, with my deep involvement in their routine practices, there was no need for them to do so.

When I visited J&J, an international ad agency in Phoenix, I informed the General Manager of J&J very clearly about my research purpose. He himself was interested in my thesis topic of competition between domestic and international ad agencies. He guided me in person to visit every department of J&J, introduced me as a researcher to most of the staffs, including the head of each department and asked them to provide help if there was a need. I conducted formal interviews with him twice and a series of interviews with some department managers in J&J. I stayed in J&J only for a week, but an accident made me lucky enough to collect tremendous information on the operation of J&J. During this week, the founder of J&J died overseas. Since J&J was a global ad company that was very famous in the world, local media in Phoenix City asked J&J to provide articles on the life of the founder and the history of J&J in China. While the PR Department was busy with other business, the General Manager of J&J asked me for help when he happened to know that I once had worked as a newspaper reporter for several years and was familiar with the requirements and the standards of local media. I did help him by writing a comprehensive report about J&J and its founder for the local media in Phoenix City. In return, I was granted a free access to a large number of documents and a great amount of materials on the operation of J&J in China, such as its organizational structure, the flow of advertising production, the division of labor and cooperation among various departments and the mode of internal management.



With the help of a key person in advertising division of Dragon Company, I obtained the opportunity to attend the presentations given by PAC and J&J. It allowed me to observe the performances of a first-tier state-owned ad agency and an international ad agency while they were competing for the same local client and their interactions with the client. In this site, I was just a trustworthy researcher to both the managers of Dragon Company and the ad agencies that participated in bidding. They were sure that I would not cause any trouble to them.

The only trouble I encountered during the two-month fieldwork was that a 50-year-old official of the Chinese Advertising Association (CAA) once asked me to prove my identity by showing an “introduction letter” (*jieshaoxing*), which normally should be given by an appropriate authority in China. I did not have this kind of letter and I could only show him my student identity card. Fortunately, the card, the friendly smile on my face and the frank manner that I spoke riddled him of suspicion at last. He spent about an hour on answering my questions and forgot the time to go home. He presented me all the issues of *Modern Advertising* magazine, sponsored by the CAA, in 1999 without any charge due to my student status. He even provided me with a newsletter for members of the CAA, which was a collection of statistics on the development of the advertising industry in China from 1981 to 1997. On top of the newsletter printed the label “internal material” and “unavailable to publish.”

The shifting identities during my fieldwork were useful for me to communicate with various people in different manners. It allowed me to dig into the case and collect comprehensive data on the intra- and inter-organizational dynamics of a state-owned ad agency—the operation of PAC, the interactions of PAC with local clients and the competing international ad agencies. Besides, being aware of the shifting identities in the fieldwork helped me to keep detached from the data while analyzing and interpreting the data from a theoretical perspective.

### **Validity of My Interpretation**

I first entered the field holding an ecological perspective on organizations. I intended to find out the modes of interaction between an organization and its environment by focusing on the strategy making of state-owned ad agencies in a competitive environment. At that time, the picture in my mind was that state-owned ad agencies would survive and develop in the intensive competition with international ad agencies by making a series of successful strategies in obtaining resources from the environment. However, when I was involved deeply in the routine practices of PAC, what I had observed or what I had collected in the field often confused me. The practices of PAC employees seemed to be dominated by a professional mentality in management sometimes and by an authoritative mentality in some other times. It seemed that PAC had a mixed or hybrid mode of operation that was proven successful in PAC's competition with international ad agencies. The discrepancy between and also the mixture of the two paradigms of organizational management were reflected in almost every aspect of PAC's operation. At this time, the ecological perspective of organizational theory I held before, which put an emphasis on the determination of environment upon organizations, was no long powerful enough to penetrate and interpret the hybridized nature of organizational management in state-owned ad agencies. Instead, I needed a different theoretical perspective that would help me to differentiate what had been mixed together in PAC's operations and to interpret why certain kinds of mixture took place in certain locale. In this case, a spatial perspective was derived from and constructed based on the data I had collected to guide my interpretation of the data.

As I had stated before, in order to guarantee the authenticity of my data, I made an effort to transfer the routines of PAC employees to part of my routines during the



fieldwork and became an “insider” of PAC both psychologically and physically. By doing so, I obtained the access to the practices of PAC employees either in the front or back region, either in open or closed settings. More important, I could see what PAC employees saw and understand the real meaning of their words and activities. In Chapter I, Chapter IV and Chapter V, I described the bidding event, the geographic location and the physical settings in PAC’s office building in detail. This detailed description is not only for illustrating that “space” is not an abstract concept but has its concrete grounding, but also for demonstrating my participant observations in Geertz’s sense of “being there” (Geertz, 1988). This “being there” placement is an important basis to establish validity of my interpretations. In addition, I tried to reduce the chances of misinterpretation of the data related to some specific activities or moments by conducting more or less the “triangulation” as well as “comparisons” (Stake, 1994, p. 241). I worked in an international ad agency for a week, visited some private ad agencies in Phoenix City and other first-tier ad agencies in Beijing despite the fact that I myself had managed a local ad agency for three years. In addition, I interviewed some managers of Dragon Company as a local client and some government officials of Advertising Association in Phoenix City and in Beijing as administrators in the Chinese ad industry. I intended to use multiple perceptions of my interviewees to clarify the meaning that I read from the data and to strengthen the validity of my interpretations.

With the theoretical perspective derived from the data, I was functioning as both the data constructor and interpreter during the fieldwork as well as in thesis writing. Like other qualitative studies, my story here is far more than providing a description of “what happens in the field” (Altheide, 1994, p. 487), although to contextualize my study, I try to provide such descriptions as much as possible and to personalize my narrative. Rather, I provide only my account on the operation of a state-owned ad agency, the marketization of Chinese advertising industry and the institutional changes taking place

in China. My account may not necessarily be shared by the actors who are involved in such practices but it should strike them as being meaningful. My interpretation here matches the methodological principle articulated in Giddens (1984, p. 284):

Sociological descriptions have the task of mediating the frames of meaning within which actors orient their conduct. But such descriptions are interpretive categories which also demand an effort of translation in and out of the frames of meaning involved in sociological theories.



## Chapter IV

### Spatial Partitioning and Routine Practices at PAC

#### Seaside Province and Phoenix City

On June 23, 1999, I arrived at Phoenix City, the capital of Seaside Province, where PAC was located. Seaside Province is a coastal province in China that is famous for its high degree of openness and early start in marketization. It was once designated “a place for the experiment of economic reforms” (*jingji gaige de shidian*) by Chinese leaders such as Deng Xiaoping and was guaranteed by the central government a great number of favorable policies to facilitate the economic reforms as and opening to foreign investment. A large number of reform measures in establishing the so-called “socialist market economy” were devised and practiced in Seaside Province first and then imitated by other provinces in China. Compared with other places, the local governments in Seaside Province—both at the provincial and the city levels—are relatively more relaxed in their restrictions over innovative reform activities and less intrusive into the operations of either state-owned enterprises or private enterprises. The more liberal economic and financial policies stimulated the rapid development of the local economy, of which the advertising industry is a sensitive indicator. Seaside Province was among the top three areas with the highest advertising billings in China since 1993. In 1998, billings of Seaside Province were 10.7% of that of the whole nation composed of 31 provinces (*Yearbook of Chinese Advertising*, 1998, p. 54). Meanwhile, the number of organizations as well as people that involved in advertising industry (*guanggao jingying danwei he guanggao congye ren yuan*) in Seaside Province was the highest in the country, about 11.7% of the national total (*Yearbook of Chinese Advertising*, 1998, pp. 49-50).

Phoenix City was located at the center of a River Delta, an area with rich agricultural production and high levels of industrial development, population density and urbanization. Historically, Phoenix City was among the first port cities opened to foreign merchants by Chinese government at the end of Qing Dynasty (1644-1911). The old European style buildings that used to house the consulates of the United States, United Kingdom and France remain in a good condition in the city center, forming the concrete signs in the city residents' collective memory of western presence and influences in the city. Meanwhile, Phoenix is famous in China for being inhabited by a great number of relatives of overseas Chinese and returned overseas Chinese. The outside world and the way of foreign merchants doing business are not entirely unfamiliar to the residents here. Local economic and cultural activities in Phoenix City have always been more or less influenced by this kind of connections or interactions with the outside world, even before the reform and opening started in 1979. Because of the commercial dispositions rooted in the local tradition and culture, compared with people in other places, residents of Phoenix find it easier to embrace the market economy ideology embedded in the market-driven economic reforms.

I had been to Phoenix for nearly ten times in the past five years. However, this was the first time I viewed it in relation to Chinese advertising industry. As one of the biggest metropolitans in China, Phoenix City occupied a very important position in the Chinese advertising industry. In 1998, the billings of advertising in Phoenix were more than 4 billion yuan (US\$ 480 million), which were 70% of that in Seaside Province and 7.4% of that in China. It made Phoenix one of the top three cities in China by advertising billings.

Due to the specific geographic location as well as the long history of opening to foreign investments, Phoenix City took a lion share of Chinese foreign trade in the early years of the reform age. During this period, a few state-owned ad agencies such as



PAC had drawn large amount of resources, both financial and political, from their monopoly in the advertising business from foreign trade. In the 1990s, when Chinese government called for accelerating marketization, local enterprises and local media took advantage of the opportunity to achieve a rapid growth. Around Phoenix City in Seaside Province, there are a number of local enterprises, particularly those in household electronic appliance industry, Dragon Company for example, that developed into large corporations in a very short period of time. In addition to producing quality products, they spent a huge amount of money every year on marketing. Advertising is a very effective strategy in promoting a famous local brand. The large amount of advertising expenditure made these enterprises big local clients for local as well as international ad agencies. Meanwhile, a few local media outlets expanded their market shares successfully by adopting a series of non-routine practices both in news production and in media management. There were only three newspapers in China that had an annual advertising earning of more than 5 hundred million yuan (US\$ 60 million), two of them were located in Phoenix (*Yearbook of Chinese Advertising*, 1998, pp. 46). The marketization of media is another factor stimulating the development of ad agencies in Phoenix City.

Unlike a few other cities in China, the City Bureau of Industry and Commerce in Phoenix did not set up a limit on the total number of ad agencies permitted to register in the city. Although there had already been 2,063 ad agencies registered in Phoenix by the end of 1998, among which were 27 international ad agencies, another 300 ad agencies got their licenses before August 1999. In addition to the large number of ad agencies in the city's growing advertising business, the degree of professionalization in the operation of local ad agencies in Phoenix is also on the top level in China in terms of providing full-services to clients. The progress of local ad agencies in Phoenix in professionalization should be attributed to the early opening to foreign trade, the

frequent interaction with international clients as well as international ad agencies, the rapid growth of local clients and local media, and the intensive competition among ad agencies.

Among all the 30 provinces in China, Seaside Province is relatively far away from Beijing, where the central government is located. The geographical distance to certain extent loosens the central government's political and economic control over Seaside Province. In turn, what happens in Seaside Province would have been less threatening to the central government.<sup>3</sup> The geographic location rendered Phoenix City as well as Seaside Province a favorable space for reform or non-routine practices not only in advertising practices but also in other industries.

Meanwhile, the close connections and frequent interactions of Phoenix as well as Seaside Province with the outside world in history constituted a favorable environment for the development of market economy. The local culture and social norms in Phoenix contain a propensity toward assenting to the logic of market economy and commercial ideology. As a result, the local government's interference into the management of local enterprises in Seaside Province was less than that in other areas. Besides, local government formulated a series of policy to promote the development of private enterprises and advocate market competition. All of these expanded the institutional space for local economic reforms including media reform and professionalization of local ad agencies in Phoenix. In short, the specific physical, geographical and institutional space of Phoenix City as well as Seaside Province formed a specific locale for PAC members to practice routine and non-routine practices while competing with international ad agencies.

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<sup>3</sup> This point should be qualified. In managing the center-peripheral relationship in China's centralized authoritarian system, the relative autonomy in some peripheral local regions or provinces is granted only as part of the overall strategy of the centralized control and at the time when the regional or provincial authorities have the full trust of the central government.



## Physical Settings of PAC

PAC is located in the downtown area of Phoenix, near a nationally famous local newspaper. In terms of earnings from advertising, this newspaper has been among the top three newspapers in China since 1992. During the same period, PAC has been the ad agency that brought the most volume of advertising business to the newspaper. As a result of the cooperation between them, PAC—the biggest state-owned ad agency in Phoenix—located its 15-floor office building in the same neighborhood of this local media outlet in Phoenix City. The distance between them is only five minutes on foot. In addition, PAC's neighbors also include "The Bank of China" and "The Agricultural Bank of China." Across the street in front of PAC's office building, there is a fancy shopping mall with the most expensive office building in Phoenix City, where PAC's joint-venture ad agency is located<sup>4</sup>.

In the early years when PAC was first established, PAC did not have its own office building. At that time, PAC's office was in the same building of its supervision government department, the Foreign Economic Relation and Trade Committee of Seaside Province. In 1993, several top leaders of PAC went to Tokyo and visited Dentsu, one of the biggest ad agencies in the world. The General Manager of Dentsu told the visitors from PAC that all the other ad agencies in Japan were very jealous when Dentsu moved into its own office building built with its own money because the office building became a symbol of financial steadiness and Dentsu's status in the industry. These words impressed the leaders of PAC so deeply that they developed the

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<sup>4</sup> According to Chinese government's regulation, foreign ad agencies must set up their Chinese operations as joint ventures. In 1993, one of the biggest Japanese ad agencies chose PAC to be its Chinese partner and formed a joint-venture ad agency. Although PAC holds 51% of its share, the joint venture operates independently. It is also among the biggest ad agencies in Phoenix City according to its annual billings.

idea of having an office building owned by PAC as one of the most powerful signs of a successful as well as a professional ad agency.

Although the annual profit of PAC was about 15 million-yuan (US\$1,807,229) in 1994, PAC spent 20 million yuan (US\$2,409,639) on establishing its own office building—40% of the money was PAC's own profit while 60% was bank loan. Due to the pressure on PAC to return the bank loan and PAC leaders' insistent complain and bargain, PAC's supervising government department stopped drawing the usual overhead charges from PAC's profit since 1994 in spite of the separation of PAC from the government office building might mean the decrease of the supervising department's control over PAC.

PAC moved into its 15-floor-high building in 1995. It became the first ad agency in China to have its own office building.

### *The Lobby of PAC's Office Building*

In the morning on June 23, 1999, I stepped into the PAC's office building for the first time. I did not find a "usher-room" (*chuandashi*), which could be regarded as one of the typical characteristics of an out-dated state-owned unit in China. Instead, I saw a reception counter right in the middle of the lobby facing directly to the gate of the building. Behind the reception counter sat a Receptionist, a 35-year-old woman with a pair of old fashioned glasses. When I walked into the building, she stopped me and asked me where I came from, the purpose I came here for and the person I would like to meet. What she had asked was not different from that any other Receptionists would ask. However, what made me feel uneasy was the cold expression on her face as well as her frigid manner. During my two-month fieldwork at PAC, I never saw a smile on her face while on duty except when she was chatting with other women. I wondered why PAC would employ such an unapproachable woman, who obviously lacked



professional training as a receptionist. Then, one day, I was told that her father once had been an official of the Foreign Economic Relation and Trade Committee of Seaside Province, the government department that supervises PAC on behalf of the state. He made use of his right to arrange his daughter to work in PAC.

Ms. Receptionist asked me to sign my name on the registration book and then let me in. When I was waiting for the elevator, I noticed that there were three public boards on the wall round the elevator. On the first board, there were pictures and words on all the prizes PAC had won in national advertising competitions in the past. The second board listed all the “innovative activities” (*chuangju*) that PAC had engaged in first in Chinese advertising industry. The third board showed PAC’s believes on organizational management as well as the goal of PAC’s development, such as “(M)ilitarized administration in commercial economy” (*shangping jingji, junshi guanli*) and “(T)o be the flagship of the national advertising industry during globalization” (*quanqiuxing minzu guanggaoye de kangqizhe*) and so on. The position of the three public boards was carefully chosen so that everyone would see them either coming in or out of the office building through the lobby. The contents on these boards were clearly thoughtfully designed to promote the strength and the professional image of PAC.

Although the building has 15 floors and there are nearly 300 people working in it, only one elevator was installed in the building. It took me several minutes to get into the elevator and then get to David’s office on the 10<sup>th</sup> floor.

### *Spatial Partition and Mixed Displays of the Office*

David was Planning & Creative Director of Business Bureau Two in PAC. After his graduation with a masters’ degree at advertising department from a university in Beijing, he was “assigned to” (*fenpei*) PAC three years ago. In other words, he got on the track that led to his present position through the traditional state-controlled

personnel assignment system. He was 30 years old and was doing very well in PAC (David was promoted to be Deputy Head of Business Bureau Two during my fieldwork in Phoenix). Due to his excellent performance in the everyday advertising production, PAC leaders allocated him a living quarter in order to attract him to stay. Allotting a company-subsidized living quarter to an extremely valuable employee is one of the ways through which many profitable state-owned enterprises use to compete with international counterparts. The reason is that many of such state-owned enterprises have under their control apartments built with state funds and allocated to them for the state employees.

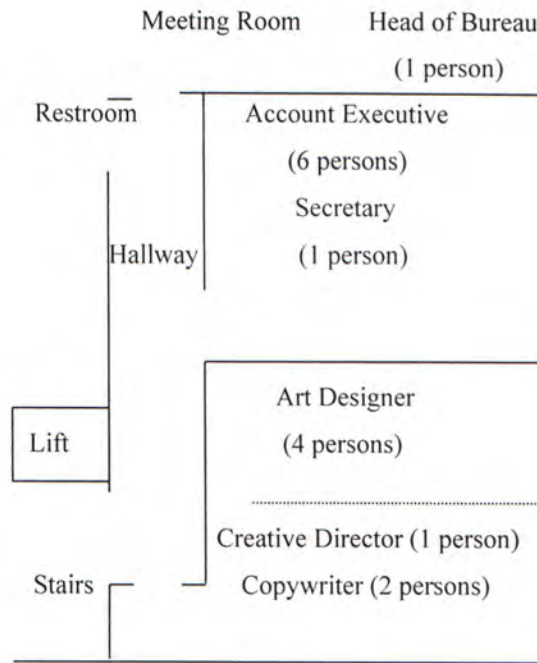
David still looked like a college student rather than a department manager with several years of working experiences in a state-owned enterprise. Since he had heard about my past working experiences in ad agency from Pan’s friend, he suggested me to work as a copywriter in his department during my fieldwork in PAC. In addition, he arranged me to take the seat facing his so that we could communicate with each other more conveniently if there was any problem in either my study or his work.

David told me that Business Bureau Two once had been the Exported Advertising Department in the early years of PAC. It used to serve the local clients who exported products to foreign countries at that time. It was now the biggest among the nine business bureaus at PAC and had an annual income of advertising more than 1 hundred million-yuan (US\$ 12 million) in 1998. Business Bureau Two normally served five clients, each of which had an average advertising expenditure of 20 million yuan (US\$ 2.4 million) in 1998. Three of their clients were state-owned enterprises, one was a private enterprise and the other a joint venture.

**Figure 4.1. Spatial Partition of Business Bureau Two in PAC**







Business Bureau Two occupies a floor of 300 squared meters in PAC's office building. The space is divided into three big rooms, one for the Director of the Bureau, the other two for Account Service Department and Creative Department respectively (See Figure 4.1). There is no decoration or partition in each room. Everyone's activities or words would be exposed to other people in the office. I was told that the office configuration in Business Bureau Two had remained as the same as that at the time when PAC first moved in this office building in 1995.

There was only one telephone with a direct line and another with extension in each room. It was so inconvenient that people had to go to the telephone table when they needed to call somebody or answer someone's call. I often heard that somebody asked people in the other room to answer the phone by shouting his/her name. What people was talking about on the phone, either on business or on private matters, could be heard by others or could easily distract other people's attention. Compared with the international ad agency that I visited later, which provided at least one extension telephone to each staff, the limited facilities in communication made cooperation among staff members as well as departments quite difficult. However, it became an

advantage for me in my study since at the beginning of my fieldwork in PAC, I recognized almost everyone in Business Bureau Two within a very short period of time by answering each call first and then asking the person to whom the call was directed.

There are 16 people in Business Bureau Two—six in Account Service Department, eight in Creative Department, one secretary and one bureau director. The Director was a 40-year-old man, a former officer in the PLA. He had been working in PAC for six years. I noticed that the members in the Creative Department were much younger than those in the Account Department were. According to David, the average length of service for the members in the Account Service Department was 12.5 years while for those in the Creative Department it was only 2.3 years. A 40-year-old woman in the Account Service Department even had worked in PAC for 20 years—she joined PAC when it first established in 1979. However, in terms of education level, the staff of the Creative Department was much higher than that of the Account Service Department. All the creative people in the Bureau were graduates of colleges or universities while only a few were in the Account Service Department (Table 4.1).

**Table 4.1. A Comparison between Account Executives and Creative Staff of Business Bureau Two in PAC**

Position	Average Age (Year)	Average Length of Service (Year)	Average College Education (Year)
Account Executives (6 persons)	35	12.5	1.7
Creative Staff (8 persons)	24.9	2.3	4

Since it was the first day with Business Bureau Two, David insisted on buying me a lunch. During lunch, we introduced ourselves a little more to each other. David told me a lot about his experiences in the past three years in PAC. He mentioned



Robert, a key member in PAC, several times when he told the legend of PAC in competing with international ad agencies. I wondered why people in PAC liked to call Robert “Teacher Robert.” David told me that Robert once had been a lecturer of Phoenix Commercial College before joining PAC. He was reluctant to work for an ad agency as a full-time staff until the General Manager of PAC invited him for several times in 1995. Now, Robert was Deputy General Manager and Director of Planning & Creative Bureau of PAC. While David was talking about Robert, I could feel his high esteem to Robert in his words and tone.

In the afternoon of my first day in PAC, David took me to Robert’s office. While the offices of the top managers of PAC are all located on the 12<sup>th</sup> floor, Robert’s office is located on the 2<sup>nd</sup> floor together with Planning & Creative Bureau and Market Research Department—to me, the two are the most important departments in the operation of a full-service ad agency. David told Robert’s justification for the office arrangement. He (Robert) needed to work together with the colleagues in the two departments while involving in the preparation for launching an ad campaign or bidding for local clients. The two departments were eager for his instructions and he also preferred to keep eye on the operation of the two departments. In addition, the 2<sup>nd</sup> floor was reachable on foot from the ground compared with the 12<sup>th</sup> floor. There was no need for him to waste his time waiting for the only one elevator to take him up to the office and he could spend more time on his work. As a result, the General Manager granted him to stay on 2<sup>nd</sup> floor, physically separated from the other top leaders of PAC.

When I met with Robert, I immediately understood why people in PAC called him “Teacher Robert.” He was about 1.7 meters high and wore a pair of glasses. His hair was unkempt and his clothes were very casual but clean. He spoke with the accent of his local dialect and his voice was husky. He had to take a kind of medicine pills (*runhou pian*) every half an hour to treat his throat, but he also kept on smoking during

our meeting. He told me that this habit was due to both his teaching job at the Phoenix Commercial College and his over-loaded work in PAC. He looked pale, thin and tired, though he was only 34 years old.

Robert was very busy. Our first conversation was interrupted many times by phone calls, some colleagues' coming in to ask for his comments on some layouts and an unscheduled meeting with a client. His words were short and direct. His opinions on advertising production were critical and sharp if not radical. For instance, the colleagues in PAC admired him very much and his attitudes to them seemed to be very kind. When he was talking with a client on the phone, I could feel obviously his dignity from his words. The manner he interacted with other people made Robert look like a typical Chinese intellectual rather than a businessman.

Robert agreed to arrange another time to talk with me and he asked David to give me help during my fieldwork in PAC. Before he left for a meeting, he reminded David to show me around to see all the departments in the office building.

Robert's office was larger than the office for the Head of Business Bureau Two that I had visited before. According to David, except for the office of General Manager, Robert's office was the biggest in PAC although he was the youngest among all the Deputy General Managers. There were many books and prize bowls on the bookshelf in Robert's office. In addition, among all the top leaders, only Robert had a computer on his table (I had conducted two formal interviews and a series of informal conversations with Robert during my fieldwork in PAC, but I never saw him using the computer).

Adjacent to Robert's office located the Planning & Creative Bureau and Market Research Department. I was surprised that both departments had much newer decorations than that of Business Bureau Two. The floor on the 2<sup>nd</sup> floor was paved by marble stone, though each room was decorated by the layouts created by PAC members,



most of which had won prizes in national advertising competitions. The office space of each department was partitioned with 1.5-meter-high grilled clapboard so that each staff owned a work place, which was relatively independent from others. In addition, the offices on the 2<sup>nd</sup> floor were supplied with an electronic drinker instead of traditional water bottles. Even the decoration of the restroom in 2nd floor was much better than that I had seen in the Business Bureau. But, what was the reason for these differences?

Led by David, I had a quick review of the physical space of PAC’s office building. Each floor has usually one or two departments on each floor (Table 4.2); it has the same size and is partitioned differently according to the number as well as the function of each department.

**Table 4.2. The Configuration of the Physical space in PAC’s Office Building**

Floor	Departments
15	Ballroom; Estate Administration Dept.; Business Bureau 9
14	Business Bureau 8
13	Accounting & Internal Auditing Dept.; GM Office
12	Offices of General Manager & Deputy General Managers
11	Business Bureau 1; Conference Room
10	Business Bureau 2 (Original Exported Ad Dept.)
9	Business Bureau 3 & 8
8	Photography & Commercial Creative Dept.
7	Media Dept.
6	Business Bureau 4 (Original Imported Ad Dept.)
5	Business Bureau 7
4	Business Bureau 6
3	Business Bureau 5
2	Planning & Creative Bureau; Market Research Dept.
1	Reception; Public boards

Except for the administrative departments located on the top floors of the

building, there was a common thread that was related to the discrepancies in the office configurations and decorations among various departments and bureaus at PAC. Most of the business bureaus maintained old decorations while the other offices were very well decorated. Other than the Planning & Creative Bureau and Market Research Department on the 2<sup>nd</sup> floor, the other offices that had new decorations and modern displays included Media Monitoring Studio in Media Department on the 7<sup>th</sup> floor, the Conference Room on the 11<sup>th</sup> floor, and the top managers' offices on the 12<sup>th</sup> floor. Although I only took a quick look, the mixture of the new and old decorations of the physical space of the office building were easily recognizable.

Why is this the case? David explained to me that the departments with new decoration usually were established in PAC in recent years, such as Market Research Department and Media Monitoring Studio. In addition, because these departments were not revenue-generating units in PAC, their expenditure in not only the office decoration but also in everyday operation was covered by PAC's overall budget rather than by department's own budget. As for the Business bureaus, which had their own budget with a contractual relationship with PAC, the amount of money they could allocate was highly dependent on how much business they gained from the clients. As a result, the income of each member in each of such bureaus was related to the bureau's net profit. Business bureaus would rather pay more to their staff individually than spend their own money on decorating the office building of PAC, which was owned by the state. Therefore, the difference between various departments in PAC was related to the financial management system that was integrated by the contract system governing PAC and its profit units and the central resource allocation system governing PAC and its cost units. This type of mixed



systems in financial management was commonly adopted by state-owned enterprises during the reforms.

During my fieldwork, I found an additional interpretive framework to account for the discrepancy in the physical displays of different departments' offices. The establishment of the new departments such as the Market Research Department and Media Monitoring Studio in the Media Department was called for by the need of providing quality full-services advocated by the emerging professional standards during the marketization of Chinese advertising industry. The ability and the facilities of an ad agency to conduct market research and media planning based upon the media program ratings and circulation became crucial for clients to evaluate an ad agency, particularly domestic ad agencies in China. In this case, the Market Research Department and Media Monitoring Studio in PAC become among the symbols of professionalism for PAC while clients usually would like to visit these departments in person before they set up business relationships with PAC. In other words, they need to have new decorations and modern displays to show for PAC's professional ability and standards. The Planning & Creative Bureau, for example, of which Robert is also the director, has also been promoted on the media as a symbol of PAC's professionalism. The managers of big local clients, particularly those of new clients, were often led to the offices of this department when they came to PAC's office building. The office configuration and displays of the Planning & Creative Bureau therefore would influence their impressions of PAC. In short, from the different decorations and the mixed displays in physical space of PAC's office building, I could recognize at least PAC's "intention" to establish a professional image to show its clients. In a spatial perspective, the arrangement of PAC's physical space could be examined in relation to PAC's routine practices in

the front region, where “professionalization” was the new rule of the game set up by international ad agencies.

### **Professionalization of PAC in the Front Region**

I started working as a copywriter in Business Bureau Two since the second day after I arrived in Phoenix. In order to know PAC as much as possible in a short period, I put a great amount of effort in collecting materials on PAC either during or after my work. By reading through all the materials that I collected, including newspapers, magazines and books, I could see better PAC’s effort to promote itself a professional image.

#### *PAC’s self-promotion in press coverage*

*Chinese Advertising, International Advertising, and Modern Advertising* are three major and influential magazines of advertising in China. They liked to call themselves “professional magazines” (*zhuan ye zazhi*) from the very beginning when they were published. Since international ad agencies brought a professional standard to Chinese ad industry, these magazines published many articles to promote the advanced management of international ad agencies and the professional standard in their advertising practices. In the articles of these magazines, international ad agencies usually were described in terms as “modern”, “advanced” and “professional” while domestic ad agencies usually were described as “old”, “backward” and “unprofessional”. Since coming to China, the international ad agencies strategically promoted their professional image by releasing successful cases of their clients in the history to Chinese media. Their clients, the famous international brands, became the best “advertisements” for international ad agencies



to expand their market share in Chinese advertising. As a result, the top managers of the international ad agencies were always the most active and attractive lecturers in various training programs organized by media and advertising associations for managers of domestic ad agencies and clients. They represented the professional ad agencies that were qualified to provide valuable or effective full-services to clients. In contrast, while talking about state-owned ad agencies, media coverage focused on their “crisis”, “challenge”, and “struggle” for survival in competition. Someone even predicted in the media that domestic ad agencies, particularly state-owned ad agencies, would disappear in Chinese advertising market sooner or later.

PAC was almost the first state-ad agency that took the initiative to change the negative image of state-owned ad agencies in Chinese media. Based upon long-term cooperation in the past 20 years, PAC kept very good relationships with local media in Phoenix City. PAC leaders actively invited local media to promote whatever progresses they achieved in the operation, such as the advertising prizes they had won, certain experts in advertising production they lured, the innovations in internal management as well as the increasing annual revenues. By doing this, PAC set up at least a progressive image for itself.

PAC’s effort to establish a professional image was intensified particularly in 1999 since this year was the 20<sup>th</sup> anniversary of the founding of PAC. PAC started its preparation for celebration since 1998. In April 1999, PAC published a book on its 20 years of history. While many famous international ad agencies, many of which had a history more than 50 or 80 years, had published a large number of books on their successful history, it was the first time that a Chinese domestic ad agency published its history. In addition, PAC had no intention to hide its ambition—in the book, it calls itself “the biggest domestic ad agency in China” (Sha

& Cai, 1999). In June 1999, one of the three advertising magazines that I had mentioned before released a 15-page-long article to advocate PAC as a successful state-owned ad agency, whose experiences should be spread to other state-owned ad agencies (When I later interviewed the editor of this magazine in Beijing, she admitted that her magazine had never promoted state-owned ad agencies like this since international ad agencies came to China). The article gave a detailed report on the competition between PAC and international ad agencies and illustrated vividly how PAC had defeated international ad agencies again and again in series of bids for big local clients. Also in June 1999, one of local economic magazines conducted an interview with the General Manager of PAC and selected him as the front-cover figure. In the article of this magazine, the General Manager of PAC clearly elaborated PAC's ambition to be not only the biggest domestic ad agency but also the best ad agency in China, which showed his great confidence in competing with international ad agencies.

Through media coverage, PAC built up its successful image to the public, which was quite different from that of state-owned ad agencies people got from the past media coverage. In addition, by introducing how they won over international ad agencies in a series of bids, PAC presented to the public its professional image—PAC was at least as professional as international ad agencies, if not the better.

This year, the slogan “to be the best ad agency in China” was also publicized on the public boards in the lobby of PAC's office building calling local clients and showing PAC's progress in competition and professionalization.



## The Transformation of Organizational Structure

Organizational structure of PAC had changed a great amount during its 20-year-long history. Before 1992, there were only two business departments in PAC, called “Imported Advertising Department” (*jingkou guanggao bu*) and “Exported Advertising Department” (*chukou guanggao bu*). The major business of PAC then was media buying in China for imported products and that in foreign countries for exported Chinese products. At that time, Phoenix City played a big role in foreign trade of China due to its huge share among the national avenue. On the other hand, PAC was the largest ad agency with the highest “administrative rank” (*xingzheng jibie*)<sup>5</sup> among only a few ad agencies in Phoenix City that were licensed to do advertising for foreign trade business. It had much favorable opportunities in doing advertising business such as bargaining with media for a lower price or applying for setting a billboard in a downtown area. It was the “golden age” for PAC in its short history.

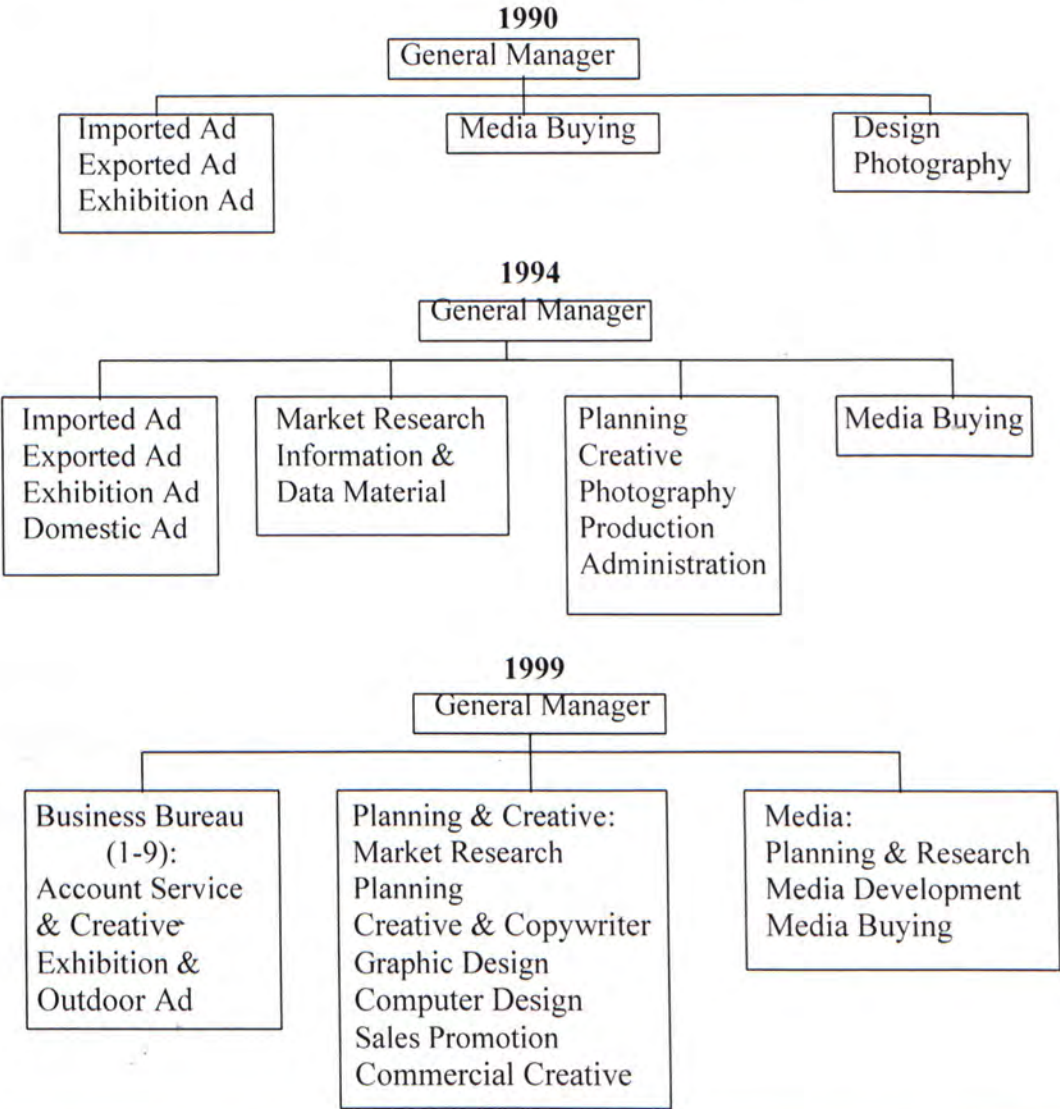
Along with the entrance of international ad agencies in 1986, the monopoly of a few state-owned ad agencies on either local clients or international clients in Chinese ad industry was broken loose gradually. As a result of the business revenue from foreign trade declining sharply year after year, PAC set up “Domestic Advertising Department” (*guonei guanggao bu*) to expand its domestic business in 1992. In addition, PAC established the “Planning Department” (*cehua bu*), “Market Research Department” (*shichang yanjiu bu*), and “Information and Data Material Department” (*xinxi ziliao bu*) in the next several years. Imitating a Japanese ad agency, with which PAC set up a joint-venture ad agency in 1993, PAC replaced “Department” with “Bureau” to name PAC’s business units.

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<sup>5</sup> In China, all the governmental agencies and state-owned enterprises are placed to different rankings in the state hierarchical system. Generally, there are four administrative ranks in China, which are ministry level (*bu ji*), bureau level (*siju ji*), department level (*chu ji*) and branch level (*ke*

In 1996, PAC’s advertising business around foreign trade vanished. Due to the adjustment in business focus as well as organizational structures that PAC had made, the revenue from local products increased quickly. In 1999, PAC dismantled the “Imported Advertising Department” and “Exported Advertising Department” and expanded “Domestic Advertising Department” into 5 bureaus, which were extended into 9 bureaus in 1999 (Figure 4.2.).

**Figure 4.2. The Evolution of  
the Organizational Structures of PAC, 1990-1999**



ji). Each administrative level represents the different degree of accessibility to resources and proximity to the power center of the government.



By reviewing the changes taken place in the organization structure of PAC in the past ten years, I tried to trace not only the development of a state-owned ad agency in its history but also the trajectory of the marketization of Chinese ad industry. Through these changes, I could see that the environmental transformation in reform age had a far-reaching impact upon the progress of professionalization for a state-owned ad agency.

In the early years when PAC monopolized local advertising, PAC was not a professional ad agency while its services only focused on media booking. From mid 1980s to mid 1990s when international ad agencies brought a large number of creative advertisements to Chinese media, PAC as well as other domestic ad agencies had to put much effort on advertisement designing. To domestic ad agencies and most local clients, advertising was not different from a kind of industrial art. That was a reason why most of the creative people in domestic ad agencies and the owners of private ad agencies in China were graduates of the major of industrial art in colleges or universities. They did not regard advertising as a strategic solution to marketing and communication problems, but as a kind of crafts or arts. After mid 1990s, international ad agencies started to seek big local clients while state-owned ad agencies had to shift their focus of advertising business from foreign trade to local clients. On the other hand, local clients realized more and more about advertising as an effective tool in marketing, the production of which required lots of specific knowledge on market communication from media to consumer. As advocated by international ad agencies, providing full-services such as market research, creating ad strategy, planning and launching ad campaign, media buying and monitoring, ad effect evaluation, sales promotion, Public Relation (PR) campaign and so on became professional standards to evaluate a qualified ad agency. Under this circumstance, PAC set up domestic advertising department to

cooperate with the shift of business focus while added some other departments to meet the demand of market research as well as media planning when providing full-services to the clients. Although the staff in these departments might not be qualified enough in offering professional services and these departments were not coordinated very well in advertising practices (this point will be discussed later), the alteration of organizational structure of PAC during the marketization of Chinese ad industry still expanded the organizational and institutional spaces for PAC to imitate the operational mode of international ad agencies. It helped PAC both to carry out a series of non-routine practices in advertising production in the back region and to contribute more professional performances to clients in the front region.

#### *Adoption of teamwork system*

The teamwork system is a widely adopted system in international ad agencies, which is related to providing comprehensive full-service to clients. While serving clients, international ad agencies usually organize a specific team, called “brand team”, for each client. Team members come from various departments such as Planning and Market Research, Account Service, Creative, and Media departments, which are respectively responsible for analyzing market situation and trend, making ad strategy, creating advertisements, executing media buying and ad effect evaluation. Members of a “brand team” work together for a client while the flow and the quality of service usually are rigidly controlled according to “work-sheet” (See Appendix 1). During the procedure, each member in a brand team who is responsible for certain part of advertising production should sign on the work-sheet the date he/she gets the order and finishes the job. Meanwhile, there is a brief checklist on each piece of worksheet that can help executives or managers to examine the quality as well as schedule of each item



in the flow. In one sentence, teamwork system in international ad agencies guarantees the professional service they provide to clients.

PAC adopted the teamwork system since it divided its domestic business department into 5 business bureaus in 1996, each of which served its own clients and was operated independently from others. The brand team in PAC was organized within a business bureau in daily operation except when PAC attended a bid for a big local client. Although number of the people in certain brand team was highly depended on the annual advertising expenditure of the client, most of the brand teams in PAC were only constituted by three people: Account Executive, Copywriter, and Art Designer. Team members would attend “briefing”—presentation or brief introduction given by a client to its agency on planning an ad campaign—together, work on advertisement production together, and communicate with clients together.

I was invited to join several brand teams during my fieldwork in Business Bureau Two. Actually, since I was not fixed to any brand team, I was invited to go to meet a client with a brand team as a copywriter whenever certain team member was not available. During their interaction with clients in daily advertising practices, PAC members were very proud of their adoption of teamwork system while local clients accepted the teamwork system as a professional mode for ad agencies to provide advertising services. However, within a brand team, I could recognize that both PAC members and local clients paid more attention on creative members such as a copywriter or an art director rather than the account executive. It was due to, as I had mentioned before, creative people in PAC usually had higher levels of college-education than account-service people did though the latter had served in PAC for much longer time. To PAC members as well as local clients, creative people who

graduated from colleges and universities might have more knowledge or skills in advertising production, therefore, were much more professional than PAC's account executives in spite of their longer working experiences in a state-owned ad agency. As a result, creative people in the brand team in PAC had to communicate with clients, collect and organize the information provided by the clients and make advertising strategy for the clients, which usually were regarded as the responsibilities of an account executive in the brand team in international ad agencies. Creative people became the professional symbols in PAC's brand teams and always did over-loaded job while serving clients. Meanwhile, Account Executives became only odd-job men who provided logistic services when a brand team was working for a client. During my fieldwork, each time when we creative people worked over time for a client, the account executive always accompanied us and bought meals and fruit for us. Once the account executives knew that I came from Hong Kong, they liked to mention this whenever they introduced me as a formal team member to the clients.

In spite of relying on creative people, PAC's adoption of teamwork system in providing advertising services to clients could be regarded as a result of PAC's imitation of international ad agencies. It would help PAC to establish its professional image as well as provide more comprehensive services to clients. That is to say, PAC's transformation in organizational structure and its adoption of teamwork system in advertising production were for PAC's better performances in front region. Compared with PAC's routine practices in monopoly years, the alteration in organizational structure and mode of advertising production was called for by competition and professionalization during marketization of Chinese ad industry. It was carried out under a professionalist-style management, which



advocated the relationship of an ad agency with its clients to be based upon comprehensive and high-quality services it could provide. Although setting up “Market Research Department” and adopting the teamwork system did not necessarily guarantee a professional service, it was difficult to ignore PAC’s effort in promoting itself toward professionalization at least in front of the clients.

### **Routine and Non-routine Practices in the Back Region**

While PAC’s activities in the front region focused on establishing a professional image and providing more professional services to clients, that in the back region focused on keeping effective management in human resources, mobilizing as much as possible the limited resources in competition and maintaining the state ownership that had legitimated PAC leaders’ authority in advertising practices. During marketization of Chinese ad industry, PAC practiced some reforms, say, non-routine practices in internal management in compensation arrangement while the mentality of management in other aspects such as advertising production was little changed. Although PAC members adopted the teamwork system, there was little communication and cooperation between departments. Internal management as well as advertising production therefore was highly relied on only a few people.

#### *PAC’s constraints and reform in paying arrangement*

Same as other state-owned enterprises in China, PAC had constraints on its operation due to the state ownership. PAC’s property right was owned by the state while managers only had partial managing right. To construct its own office building, PAC bargained with the government department in charge and has stopped

turning over any profit to it since 1994. However, according to the government regulation on state-owned enterprises, PAC managers had no right to distribute its profit freely. Any expenditure more than 300,000 yuan (US\$ 36,145) or any investment more than 500,000 yuan (US\$ 60,241) in PAC must be proved by the government department in charge. If PAC leaders spent a large amount of money without approval, they would lose the trust of the government department in charge and would be dismissed immediately. It constrained PAC leaders from performing a very quick reaction to the change of market in competition. Once the expenditure or investment had been permitted by the government department in charge, PAC leaders had little responsibility on the outcome of the expenditure or investment, according to the bureaucratic norm in the planned economy system. It made PAC leaders putting effort in obtaining the admission of the government department in charge rather than carefully planning or effectively managing its investments in the market.

The government constraints were reflected not only in financial management but also in personnel management. Only the government department in charge had the right to appoint General Manager and endorse the General Manager's nomination of Deputy-General Managers of PAC. When promoting someone, political criteria were still emphasized very much in PAC. For example, among 11 top leaders of PAC (1 General Manager, 8 Deputy-General Managers, 1 Deputy-Party Secretary, 1 Chairman of Labor Union), all were CCP members except Robert. According to the General Manager of PAC, among 298 formal staff in PAC, nearly half were party members. During my fieldwork in PAC, I happened to attend PAC's celebration meeting for the 78<sup>th</sup> anniversary of the founding of the Chinese Communist Party on July 1, 1999. In the meeting, another 8 young people joined



CCP. Although such kind of grand scene was rare even in many state-owned enterprises today, I could feel that the party membership was still a kind of honor to PAC members and it was very important for them to be promoted in the future. On the other hand, every year PAC should receive from the government several retired military officers (including the present General Manager of PAC), who were supposed to be “politically reliable” (*zhengzhi guoying*), though most of them knew nothing about advertising. PAC had altogether 22 retired military officers who once had been served the PLA while 8 of them now were among the 11 top leaders of PAC. The experiences of these retired military officers might make the top management of PAC more used to get back to the old habit developed in the military.

Due to state ownership, managers of PAC did not have the right to fire a “state employee” (*goujia zhengshi zhigong*) if s/he was unqualified in the work unless s/he committed a crime or did harm to PAC’s business seriously. Besides, PAC had to take the responsibility to look after and pay 30 state employees that had retired from PAC in the past 20 years. Compared with other big state-owned enterprises in China, PAC’s retired people were fewer in numbers. But, over time, the burden upon PAC would be heavier than before. In PAC’s General Manager’s words, only 80 people among all the staff were qualified enough to serve in PAC and they were usually overloaded and felt unfair. But what PAC’s managers could do was limited because according to government’s regulation upon state-owned enterprises, the ratio of the highest to the lowest “fixed salary” (*jiben gongzi*) in state-owned enterprises should not exceed 20. The regulation prevented PAC leaders to keep and attract excellent personnel as efficiently as they could. As a result, job-hopping of experienced specialists took place in PAC almost every year.

People who had quit their job in PAC several years ago, once had been the most capable staff in PAC, now were working as managers of international ad agencies or owned their private ad agencies in Phoenix City.

The strategy of PAC's leaders in human resource management was "to exploit the policy to the fullest extent" (*yong zu zhengce*). Since managers did not have the right to fire any state employee, they asked people who were not qualified enough to do advertising to "go off duty" (*xiagang*) with the lowest salary in PAC while increased other people's bonus, which was not necessarily calculated as a part of "fixed salary." That is to say, some people might receive a bonus much higher than their salary. It forced someone who had been arranged to "go off duty" to resign from PAC by themselves while some key members in PAC had been paid nearly 20,000 yuan (US\$ 2,410) per month. The highest payment in PAC might be less than that of managers in international ad agencies, but it was very rare for state employees or managers in either ad agencies or other enterprises with state ownership. It was a non-routine practice for PAC, a state-owned ad agency, in its paying arrangement.

On the other hand, PAC made use of the public housing policy to offer living quarters to PAC members. Due to the "housing reform" (*zhufang gaige*) advocated by Chinese government, all the "state-operated units" (*guoying danwei*) including state-owned enterprises no longer had the responsibility to allot housing to their employees. Meanwhile, they had the right to decide whether they allowed the employees to buy their houses, once allotted and owned by the "state-operated units," at a lower price than that of "commercial housing" (*shangpin fang*). To state-owned enterprises, they even had the right to buy houses for their employees except the state would no longer provide any subsidies. Based upon the policy, PAC



allowed their members who contributed good performances during the work to buy the houses PAC allotted to them before at a very low price. On the other hand, PAC had bought for some key members commercial houses with better facilities than public houses, each of which cost 0.5 to 1 million yuan (US\$ 60,241 to 120,482). These key members included 11 top leaders of PAC and several experts that had substantial contributions to PAC particularly in bidding for big local clients with international ad agencies. Although these people were required to serve PAC at least for 7 years before they would leave with the property right of their houses, it attracted people who were experts in advertising to serve for PAC. In addition to the housing “benefit,” PAC offered some regular benefits to its staff, same as other state-owned enterprises. For example, it provided medical benefits to PAC members as well as their children and guaranteed the recruits a permanent residence in Phoenix City, which was still crucial for people’s life and career in today’s Phoenix.

PAC’s General Manager once told me that “reform of state-owned enterprises is a problem in terms of remuneration, or setting up a new compensation program”. The Head of each business bureau should contract with PAC every year by committing to a quota of annual revenue in the coming year. Besides, they needed to prepay a fixed amount of money in beginning of the year, which would be returned only when they fulfilled the quota at the end of the year. The benefits to the Head of each business bureau were obvious. First, he could make a decision by himself to select someone to stay in the department while informing others to leave. People had to “go off duty” if they were not selected by any department in PAC. Second, when a business bureau had over-fulfilled the revenue, PAC would get 40% of the exceeded profit, while Head of the bureau had the right to distribute the

remaining 60% by himself. The pressure for the bureau Head was that the target revenue was increased every year according to that had been finished last year, meanwhile, he/she would be dismissed from the position right away if he/she did not realize the target revenue.

The new compensation program could be regarded as a non-routine practice to PAC as a state-owned enterprise. It provided incentives of PAC members to work hard to achieve more revenue, which meant more material rewards to them. To talents in PAC, the new compensation program was the most attractive program since it guaranteed a series of benefits as well as the stability in state-owned enterprises on the one hand and almost the same high payment as that in private or join-venture enterprises on the other. Meanwhile, contractual system between business bureaus and PAC involved redistribution of power among the upper and mid-level managers in PAC. While the upper managers could formulate and revise the compensation program and adjust the proportion of the profit they obtained from business bureaus, the mid-level managers had the right to manage the financial and human resources in their own departments. Therefore, PAC leaders possessed a great deal of power to impose their own will without too much check and balance that could only result from a stable organizational structure and procedure. Such structural factor might be conducive to the exercise of the authoritarian-style management, which was over relied upon on a few people such as managers and certain key members that had the power in assembling as well as distributing resources.

Meanwhile, since each business bureau operated independently in business developing, there were all kinds of conflicts, even competitions, among the 9 business bureaus in competing for clients or internal resources of PAC. For



example, each time when the top leaders of PAC selected some business bureaus to serve a big local client that PAC had won through bidding, managers of some other business bureaus would keep quarreling and complaining until PAC leaders allotted the new client to them. Also due to the contractual system, business bureaus were unwilling to share resources with or provide help to each other during advertising production. It made communication as well as cooperation between departments in PAC much more difficult than before. In short, PAC's reforms or non-routine practices in the compensation program accelerated if not caused the development of less communication and cooperation in advertising production as well as an internal management that was highly reliant upon only a few people.

#### *Advertising production with less communication and cooperation*

By advertising production, I referred to the routine practices of an ad agency serving its clients by developing an advertising strategy (creative strategy as well as media strategy), planning and executing media buying, and creating advertisements. Usually, advertising production was conducted within ad agencies or their cooperative companies. The normal routine of advertising production included that, based upon the advertising strategy collected by Account Executive for certain client, creative people in the brand team would develop a creative strategy for the client and present it in layouts or storyboards for TV commercials while media department would develop a media strategy for the client and plan the advertising expenditure on media. For PAC, except the media planning and buying was carried out by Media Department that was directly controlled by PAC leaders in order to guarantee the financial control in PAC, advertising production for each client was conducted within the relevant Business Bureau.

Different from international ad agencies, members of a brand team in PAC seldom discussed together while conducting advertising production for clients. Due to the implementation of a contractual system, all the Account Executives had to accomplish a part of the annual revenue that the bureau Head had committed to PAC. They carried with them a heavy pressure in exploring new clients during their interaction with clients. In order to please their clients, sometimes Account Executives accepted the clients' urgent requests for creating and designing a layout without considering working schedules of creative people. Rather than informing the clients that it would take creative people several workdays to work out a layout or a storyboard, as international ad agencies usually did to their clients, Account Executives in PAC often transferred the pressure to copywriters and art directors in the brand team without any thoughtful considerations. It made creative people not having enough time and willingness to discuss the creative strategy for certain client with Account Executives. In addition, as I had discussed before, Account Executives in PAC had less knowledge and skill on advertising production than creative people did. They could provide little help to creative people in advertising production though they belonged to the same brand team. In addition, due to the tight schedule as well as Account Executives' ready compromises to clients' unreasonable requests, the "worksheet" that PAC designed for controlling the quality as well as the flow of advertising production had not been effective until now in PAC.

The lack of communication and cooperation not only existed among members of brand teams within a business bureau, but also among all the departments in PAC. Normally, people in Market Research and Media departments might engage in advertising production for every client by providing information



and suggestion on advertising strategy making. However, most of the local clients set the budget of advertising expenditure and made the media plan by themselves. The local clients could hardly believe ad agencies' suggestions on media planning because ad agencies often recommended media based upon the discount prices that media outlets offered to ad agencies rather than the advertising effect to the clients. In addition, Media Department in domestic ad agencies usually had little precise information on the ratings of certain program or circulation of certain print media. Although PAC had set up Media Monitoring Studio in Media Department, its ability in media planning for clients was still very limited. In addition, compared with other business bureaus that contracted with PAC, both Market Department and Media Department did not earn money but spend money. PAC leaders did not supply enough financial resources as well as human resources to develop these two departments. As a result, the former manager of Market Research Department resigned from PAC and now was in charge of the same department in an international ad agency in Phoenix City. The present manager in Market Research Department also had resigned from PAC until PAC leaders invited him back in June 1999 to prepare for the bid for Dragon. During my fieldwork in PAC, whenever I intended to ask for a help from Market Research Department or Media Department, people in the brand team always expressed their doubt on the ability of the two departments.

Without the help of Market Research Department and Media Department, creative people in each business bureau became overloaded with work. To supply the shortage of creative people in each business bureau, PAC distributed all the copywriters and art designers from Planning & Creative Bureau to business bureaus in 1998 and recruited 25 college graduates as creative people in 1999. Distributing

all the creative people to business bureaus, which operated independently, lowered the overall creative level of PAC. Meanwhile, it might waste resources when some business bureaus were busy on serving clients while others were not in certain period.

### *Management relying on a few people*

Unlike the professional services of international ad agencies that were based on the well-structured production flow and their well-trained personnel, PAC's management in advertising production relied heavily upon only a few people such as James and Robert. James, General Manager of PAC, was responsible for communicating with the government department in charge, managing human resources, designing and installing more efficient compensation program, ensuring all the logistic services for everyday advertising production and mobilizing kinds of resources to support PAC to bid for a big local client. Robert, as Deputy-General Manager of PAC and Director of Planning & Creative Bureau, was in charge of quality control of everyday advertising production, preparing for all the bids and competitions that PAC taking part in, promoting PAC in media, communicating with big clients directly whenever needed.

### *James*

James was born in Seaside Province. He once had been a "literature and art soldier" (*wenyi bing*) and then an officer in signal troops of PLA for 20 years. Before he was appointed to be the General Manager of PAC in 1993, he had been the Head of Personnel Division in Foreign Economic Relation & Trade Committee of Seaside Province for 10 years.



James was 47 years old when he first came to PAC and was totally ignorant about advertising so that most of people in PAC, particularly the creative people did not take him seriously. They kept routine activities such as going to office late while leaving early, and making extra money during working hours. After warning these people for several times, James dismissed Creative Department and sent almost all the creative people to various business bureaus. These people were required to accomplish target revenue; otherwise, they would “go off duty” while their payment would be reduced. It shocked people in PAC because they had never been treated like this before. These state employees wrote to PAC’s government department in charge to complain while an infuriated employee even declared that he had saved three bullets: one for James, one for the department head and the other for himself. James took it very easy because he had never been scared of bullets during his 20 years military life and the war experiences in Vietnam.

He insisted on what he called “military administration” of members of PAC. For example, all the people must start working on time in the morning; all the people must come to office in half an hour whenever there was an urgent call in leisure time; nobody was allowed to contact with the outside world without a permission when being “sealed” for a bid. James intended to train PAC members into the soldiers that were available and combat-ready at any time. To keep the military tradition and advocated military administration in PAC, James even would lead the 22 retired officers of PLA to have military drill in PAC’s ballroom on the Army Day each year. PAC was called as “a military camp without blowing a bugle” since each one was required to react speedily, work hard, and observe discipline.

James was not only a retired officer of PLA but also an official who had been in charge of a personnel division for 10 years. He owned very rich experiences

in communicating with and organizing people in PAC. James had made much effort on developing human resources for PAC. In his word, a general manager of state-owned enterprise must be aware of how to make proper use of personnel rather than do the business in person. Since 1995, he had persuaded more than 50 college graduates to join in PAC. He paid each of the college graduates 2,000 yuan (US\$ 241) per month, which was much more than other ad agencies or state-owned units paid to college graduates. In addition, all the college graduates in PAC were arranged to live in PAC's dorms, where the facilities were very good while the rent was very low.

Among the eight retired PLA officers in PAC's top management, James's military rank was the highest. Besides, James came from PAC's government department in charge, with which he kept a very good relationship. Therefore, James had the absolute power in PAC's management. Although there were 8 Deputy-General Managers in PAC, they were all promoted by James and had to side with him. The situation was favorable to James's tough administration and guaranteed the absolute power for him to adopt non-routine practices in compensation arrangement and effectively mobilize possible resources in a short time for PAC's good performances in competition. However, he knew very clearly that himself or other retired officers of PLA were not qualified enough to deal with the pressure of professionalization to PAC during marketization of the Chinese ad industry. He had to find someone that was helpful to promote the professional image of PAC in front of clients and improve PAC's level in advertising production in back region. No one was competent for the task until James encountered Robert one day.



## *Robert*

Robert was born in a poor province in East China. After he received a master's degree of philosophy in a university, he came to Phoenix City and became a lecturer in Phoenix Commercial College. In 1993, he started working as a part-time copywriter for PAC's joint-venture ad agency. Although he was only a part-time copywriter, he created many excellent ideas for clients while some of his slogans became very well known in China.

In 1995, James happened to hear that there was an expert in PAC's joint-venture ad agency. He arranged to meet Robert and had a talk immediately. However, Robert had little interest in James's invitation. He did not believe that a 50 year-old man like James, retired from PLA and knew little about advertising, could successfully manage an ad agency, which required a large amount of professional knowledge and skills. On the other hand, with the payment from Phoenix Commercial College and that from PAC's joint-venture ad agency, Robert was very satisfied with his life style straddling both academy and business. He rejected James' invitation to serve for PAC as a full-time staff.

James regarded Robert was the right person he was looking for. He appreciated very much the rich knowledge and skill owned by Robert in advertising production. James kept sincerely inviting Robert to join in PAC. He sent Robert home by his car each time after their meeting; he had been to Robert's home altogether for 7 times asking for his opinions on advertising production as well as management of ad agencies. Robert, as a traditional Chinese intellectual, finally was deeply touched by the earnestness of the military man, and accepted his invitation to be the Creative Director of PAC. He was 30 years old at that time.

With 10 years experience as Head of Personnel Division, James knew very

well about the characteristics of Chinese intellectuals. He took his initiative to provide favorable treatments to Robert. For Robert's convenience, PAC spent 1.2 million yuan (US\$ 144,578) buying him a big new house in downtown area near PAC's office building. Meanwhile, James declared that Robert was the only one in PAC who did not have to come to work on time. While other key members should commit a 7-year-long service to get their houses, Robert was permitted to sign a contract with PAC only for 3 years. In addition to the house, James paid Robert 20,000 yuan (US\$ 2410) per month, which was the highest salary in PAC. Robert wanted to stay on the 2<sup>nd</sup> floor rather than move to the 12<sup>th</sup> floor with other Deputy-General Managers, James approved his request and arranged a new decoration for Robert's office and his department. Actually, James agreed to almost all the requests by Robert and gave him the best treatment as well as the most freedom in a state-owned enterprise. In James' own words, he was willing to be the "housemaid" for Robert.

As a traditional Chinese intellectual, Robert did not care too much about the material benefits from James. However, what Robert highly valued was James' sincere respect and appreciation of his talent. He saw both from all the thoughtful arrangements and a series of favorable treatments offered to him. There has been a historical tradition among Chinese intellectuals to give everything to an authority that showed them sincere respect and appreciation. The principle of intellectuals dying for an authoritative figure who respects and appreciates them (*shi we zhijizhe si*) was widely accepted in history. Robert seems to be a modern practitioner of this principle. He regards James, the General Manager of one of the biggest ad agencies in China, as an authority that has shown him sufficient respect and appreciation, as a result, he would like to give all his energy as a return.



Robert became the most hard-working person in PAC—he had been working for PAC for more than three years without a break even when he was ill. He took every responsibility in quality control for PAC’s advertising production and was in charge of preparing for all the bids since 1997. He was very strict to himself as well as other creative people in PAC while conducting advertising production. Many creative people in PAC had mentioned to me that the most difficult thing in PAC was to create a satisfied advertisement to Robert. Based upon Robert’s insistence upon the quality of creative service, PAC won many awards in provincial or national advertising competition and beat international ad agencies in all the bids since 1997. In other words, almost all the biggest clients in PAC these years could be attributed to Robert and his colleagues’ efforts. It made Robert be the professional symbol of PAC. He was selected to be a member of China Advertising Association Academic Committee and represented PAC to attend national or international advertising exhibitions and competitions, and was promoted to be Deputy General Manager of PAC in 1998.

Robert cooperated very well with James. For example, Robert once planned to replace some department managers, including a few retired military men with young people, James strategically promoted these department managers to be Deputy General Managers of PAC. By doing this, some young people had promotional opportunities while those retired military men were satisfied. Although they had no substantial power in PAC’s management compared with James, their salaries were remained at the same level or even raised while their pressure on business developing were released. In Chinese common saying, “it is hard for a scholar to communicate with a soldier” (*xiucaiyudao bing, youli shuobuqing*). This was not true as for the cooperation of Robert with James. In dealing with intensive

competition in the market, James kept effective management based upon “military administration” and adopted a series of non-routine practices in financial and human resources management while Robert contributed his professional knowledge on advertising for PAC and made his best to guarantee an excellent performance to compete with international ad agencies for big local clients.

The specific combination of “a scholar” and “a soldier” in PAC’s management could also reflect the spatial partition of PAC in advertising practices. In the front region, PAC had to establish its professional image as well as provide comprehensive services to clients in order to survive in the competition with international ad agencies. Since Robert was in charge of managing PAC’s performances in the front region including self-promotion in media and bidding for local clients, he adopted the professionalist-style management in operation, which advocated an ad agency to provide professional services to clients. He himself was promoted as the professional symbol of PAC because of his academic background and under his management, PAC had won all the bids since 1997. However, in order to keep an effective management in resource mobilization as well as resource distribution, James adopted the authoritarian-style management in the back region. It guaranteed PAC leaders to mobilize limited resources in a very short period particularly when bidding for big local clients with international ad agencies. The military experience as well as the tough administration made James the authoritative symbol in PAC’s internal management.

Therefore, the division of labor between Robert and James, the professionalist-style management and the authoritarian-style management that respectively dominate practices in the front and back region both articulates and reinforces the spatial partition in PAC. Meanwhile, their cooperation represents that



the two paradigms of organizational management work together in PAC's daily operation.

### **The Mixture of Two Systems in PAC**

The spatial partitioning as well as the routine practices of PAC in various regions should be examined in relation to the locale in which PAC operates. On the one hand, although Seaside Province was selected as a special zone for economic reform in the early 1980s, the economic reforms and the development of local economy operated under a very rigid control by the state in the early years of reform age. As a result, although PAC drew huge resources through the state-guaranteed monopoly at that time, it also developed a mode of operation in the framework of authoritative and bureaucratic management that was predominant in other state-owned ad agencies in a planned economy system. On the other hand, because of its connections with the outside world in history, Phoenix City has in its local culture elements that are assenting toward the market logic and commercial ideology. As a result, it was not as difficult as in other places of the country for PAC to adopt professional standards in providing advertising services to its clients. That is to say, right from the very beginning of PAC's establishment, two forces—state power and market force—were functioning together to shape PAC's organizational and institutional configuration. While market forces pushed PAC toward professionalization, the state power pulled PAC to maintain the state ownership as well as the mentality of planned economy ideology. Born into such an institutional setup, PAC's operation was destined to have the characteristic of organizational dualism, which referred to the mixture of market economy ideology and planned economy ideology in PAC's organizational dynamics and routine practices.

The mixture of the two systems in PAC's operation can be recognized from its physical settings such as the partitioning, the decoration and the display of PAC's physical space. It can also be seen from the transformation of PAC's organizational structures and the changing modes of advertising production in the past 20 years. It is also reflected by the setup of new intra-organizational compensation program, a series of non-routine practices in financial and human resources management and even in the division of labor between James and Robert.

To examine the impact of such kind of organizational dualism in intra- and inter-organizational dynamics of PAC during marketization, the spatial perspective offers a helpful interpretive scaffold because it enables us to differentiate how the two systems are distinguished and integrated in PAC's operations. In this perspective, the market economy ideology is seen dominating PAC's activities in the front region, where it has to compete with international ad agencies by providing professional services to local clients. Therefore, PAC leaders mainly adopt the professionalist style of management while managing the performances of PAC members in the front region. The authoritarian-style management, as a legacy of planned economy ideology, mainly dominates PAC members' activities in the back region. With the shortage of resources, the authoritarian-style management in the back region is still an effective way for PAC leaders to mobilize limited resources in a short period of time to support a good performance in front of clients.

Despite analytical distinction between the front and back regions, in practice, there is no clear-cut boundary between the two. The two regions are connected and complement each other and there is a gray area between them. This point should help us to understand the integration of the two paradigms of organizational management in PAC's operation and the transformation of routine practices between



various regions. For example, while bidding for a big local client in competition with international ad agencies, PAC leaders used professional standards to examine the advertisements that each member had created during the “seal-off” in the back region and to evaluate their presentations on bidding in the front region. Meanwhile, to guarantee the effective resource mobilization in the back region as well as to ensure the professional performance of each member in the front region, PAC leaders relied heavily on the authoritarian-style management to keep control on each person’s activities. The two paradigms of organizational management therefore are woven together in PAC’s advertising practices in both regions. Nevertheless, the distinction between the two regions in a spatial perspective helps us to interpret how the organizational dualism manifests itself in the operation of a state-owned ad agency and what its impact is on the operation.

Through a series of non-routine practices in the front region such as promoting itself in the media, changing organizational structure and adopting teamwork system to serve clients, PAC intend to establish its professional image to the clients. Through the non-routine practices in the back region such as a series of reform in compensation arrangement and human resources management, PAC leaders attracted some experts in advertising and provided them with incentives to work hard for PAC. The non-routine practices in the front region had been devised under the mentality of “professionalist-style management,” which advocates the relationship of an ad agency with its clients to be based upon the professional services it offered, while that in the back region were devised under the mentality of “authoritarian-style management” that relies upon only a few people. But, how did the two paradigms of organizational management integrate together in PAC’s operation? How did PAC leaders patrol and make use of such kind of spatial

partition in the competition? How could they show excellent performances like a professional ad agency in front of the big local clients while maintaining an internal management that was less structured, less coordinated and highly depended on only a few people? In the next chapter, I will use “bidding” as a critical moment to tackle these questions.



## **Chapter V**

### **Patrolling the Spatial Partition in Competition**

As a state-owned ad agency, PAC faces constraints and disadvantages just like any other state-owned enterprises. But, PAC has performed a series of non-routine practices in the front and back regions. In the front region, PAC tried to establish its professional image in the interaction with clients. It promoted itself in the media, changed organizational structure and adopted teamwork system in order to provide comprehensive advertising services to clients. In the back region, PAC set up a new compensation program to keep and attract advertising talents to work at PAC. During the reform, PAC leaders maintained the authoritarian-style management—as a legacy of planned economy ideology—at least in the back region. How were the PAC members able to turn out professional performances in the front region while in the back region maintained the authoritarian-style management, which concentrates the power and resources in the hands of a few people? How did PAC leaders strategically patrol the spatial partition of the front and back regions in their daily operation and in PAC's competition for local clients with international ad agencies? To tackle these questions, I will analyze “bidding for a big local client” as a critical moment. Through this analysis, I hope to illustrate with concrete details how PAC members managed their performances in various regions and how they integrated the two paradigms of organizational management—professionalist-style management and authoritarian-style management—in order to contribute a professional performance in competition.

## **Bidding as A Critical Moment**

Bidding was a way that a client to find its agency by inviting several agencies to compete within an operating framework that the client set. Based upon the principle of fairness, the client would provide the same information to each of them and ask them to present their plans independently and in separation from the others. In addition, all the agencies should accomplish their plans as well as presentations in the same period of time.

Bidding is obviously a way of doing things in a market economy system. When state-owned ad agencies monopolized advertising in China, local government usually appointed certain state-owned ad agencies to serve certain local clients. Local clients also did not have much more choices since the number of ad agencies was quite limited in the early decades. However, bidding now became a fashionable way for clients to choose among the agencies in China. It was applied not only in advertising industry but also in many other industries such as management consulting industry, architectural industry, and so on. At least two reasons accounted for bidding becoming very popular in China advertising industry. One was that the competition became more and more intensive among ad agencies as a result of an increase in ad agencies in China, the state-owned, the international and the local private. The second reason was due to the short-term cooperation between local clients and ad agencies—either domestic or international—caused by the lack of understanding of and confidences in each other. The cooperation between local clients with international or domestic ad agencies usually did not last for more than one or two years. The local clients in China often complained that the pace of domestic ad agencies in professionalization and that of international ad agencies in “localization” were not able to catch up with the rapid growth of local clients and their aggressive demands and requirement upon advertising service. At the other side, international as well as domestic ad agencies in China



regarded the local clients having limited or even biased knowledge on the role of advertising and that of ad agencies in marketing. As a result, bidding came to be the most efficient way for big local clients with huge an advertising expenditure to select a suitable and qualified ad agency. To domestic ad agencies, to attend a bid and give an excellent performance was a shortcut for them to set up a professional image and obtain the big local clients.

As for PAC, to submit a bid had become the most significant event because almost all the biggest clients of PAC were obtained by PAC members attending various bids. Whenever preparing for a bid, PAC leaders would mobilize all possible resources and organize all the key members to hide away from the office building, called “seal off” (*fengbi*), for a period of time. Although PAC had won all the bids it had involved in since 1997, bidding was still regarded as a severe trial to PAC members because it demanded both the professional performances in the front region and the efficient internal management and resource mobilization in the back region. In this sense, bidding for a big local client was a critical moment for me to illustrate how PAC leaders patrolled the spatial partition and stage an excellent performance in competing with international ad agencies by mobilizing the limited resources under authoritarian-style management.

### **PAC's Preparation for Submitting A Bid**

#### *“Go up the mountain”*

In order to concentrate on preparing the bid for a client, key members of various departments in PAC would be selected, primarily by Robert alone, to be “sealed off”—to move away from the office building and hide in a remote place—for about two weeks. The “seal off” had been promoted as a magic formula as well

as a routine in PAC to win all the bids. At the same time, because the “seal off” places in solitude a small group of selected top talents from various departments and separates them from their daily routines in their respective departments, it is, from the point of view of organizational management, really a non-routine event in PAC. To characterize “seal off” in a short sentence, we can say that it is a non-routine organizational activity that has become an enduring feature in PAC’s operation. The event, therefore, is a moment when various dualisms in PAC in the marketization of Chinese advertising industry, including the two styles of organizational management, two paradigms of advertising production, the front and back regions, and the routine and non-routine practices, seem to converge.

In the press coverage and PAC members’ daily discourse, the routine of “seal off” usually was called “going up the mountain” (*shangshan*). There were multiple meanings in this phrasing. First, it referred to the “retreat” (*xiulian*) in that some PAC members stayed away from disturbances and concentrated their energy on a project by going to a remote and quiet place (*International Advertising*, 6, 1999, p. 36). Second, it meant a tough job or a period of hard time for PAC members because educated urban youth once had been sent to the remote mountainous areas and to work in the countryside during the Cultural Revolution (Sha & Cai, 1999, p. 267). Third, as James, Robert and David had mentioned to me several times in interviews, “going up the mountain” stands for a secret weapon, which was a little bit mysterious to outsiders, for PAC members to beat its competitors. It made me recall that the former Chinese leader Mao Zedong always threatened other government leaders who opposed his policy by saying that he would “go up the mountain to fight a guerrilla war” (*shangshan dayouji*). This phrasing more or less reflected the competitive relationship between PAC and international ad agencies. I



would use “going up the mountain” and “seal off” alternately in the following narrative.

The experience of participating in “going up the mountain” was an honor to PAC members since each time there were only 20 to 30 among the 300 employees would be selected to engage in preparing for bidding. Upon being selected, these people would be certified by the professional authority within the company as the most talented people in PAC. Although it was well known that “going up the mountain” was too hard a time to endure, people would still be excited and very proud if their names were on the list while disappointed if they failed to be selected. The selection to certain extent represented PAC leaders’—particularly Robert’s—evaluation of an employee’s professional knowledge, skill, talent, tenacity and personality. It was highly related to one’s promotion or development in PAC in the future.

Robert, as Director of Planning & Creative Bureau in PAC, had been in charge of preparing for all the bids since 1997. Built upon winning all the bids so far, Robert became the undisputed authority among PAC’s top leaders with the power to decide who would “go up the mountain” while who would not. After the selection was finalized, staffs in the General Manager Office would type out a notice and then go to each department to inform everyone on the list in person. To be courteous, people who had been selected to “go up the mountain” must sign on the notice.

Once I heard the news that PAC would “go up the mountain” to prepare for a bid for Dragon, I realized that it would be a critical moment for my research topic. I must grasp the opportunity to participate in this kind of activity. However, when I asked for Robert’s permission, he rejected my application in a very polite manner by

emphasizing that first he could not make the decision by himself and second, “going up the mountain” would be too tough a job for me to endure. I asked him to reconsider my request. Meanwhile, I asked for help from a friend who was in charge of advertising now in Dragon and also an organizer of the bidding this time. She called two people in PAC. One is the Head of Business Bureau 5, who once had served Dragon. The other is Robert. Fortunately, Robert changed his mind at the last minute. I felt a little bit guilty to Robert since I had pushed him to make such a hard decision by using resources from his client. Nevertheless, the “seal off” must be a closed area in the back region that was strictly guarded and carefully kept away from outsiders. To me, penetrating the closed area in the back region provided me a rare opportunity to understand the spatial partition in PAC’s operation and how PAC members contributed an excellent performances to clients via such a spatial partition.

*Resource mobilization*

Excluding me, PAC sent 36 people to the “seal off” for the bid for Dragon (Table 5.1).

**Table 5.1 PAC’s Human Resource Mobilized for Bidding for Dragon**

Department	Occupation	Person
Market Research Dept.	Analyzing market, product, consumer, competitors’ positions	4
Media Planning Dept.	Making media strategy; planning media buying	4
Planning & Creative Bureau	Making creative strategy; creating layouts, POPs and TV commercial storyboards	24
General Manager Office	Coordinating; providing logistic-services	4

According to Robert, this was the first time that so many people were involved in preparing for a bid because Dragon was such a big local client that it



would spend 150 million yuan (US\$ 18,072,289) on advertising in year 2,000. Robert assembled all the talented and most experienced creative people among 9 Business Bureaus to prepare for the bidding while arranging people in Media Research Department and Media Planning Department to assist. In addition, due to the shortage of hands and the purpose of training, 12 of the 25 new recruits—college graduates joined in PAC only one or two weeks ago—were also selected to “go up the mountain” this time.

In the past, the “seal off” usually was conducted in hotels or guesthouses located in various scenic spots that were far away from Phoenix City. Although “going up the mountain” was definitely a tough job, beautiful views and fresh air in scenic area made PAC members feel a little bit better. However, when the “seal off” became a permanent stay in PAC’s dealing with bidding, PAC spent 1.8 million yuan (US\$ 216,867) to set up a training center in Modern City in 1998. Since then, each “seal off” was conducted in PAC’s training center instead of hotels located in scenic spots. Although facilities of the training center were as good as that of a descent hotel, there were no beautiful view and fresh air anymore. It made “going up the mountain” much more boring and unbearable to PAC members than before. But to PAC leaders, the training center was an ideal place for “seal off” because PAC members had to concentrate their attention on preparing for the bidding. In addition, all the mobile phones and pagers were disconnected due to the specific location of the training center in Modern City. Only one telephone line was available in PAC’s training center for the headquarter of PAC to keep emergency contact with Robert and a Deputy-General Manager who was in charge of providing logistic services during “seal off.” Without a permission of the two managers, no one was allowed to use the telephone. In addition, the door of PAC’s training center

was locked at 9 o'clock in the evening everyday and no one could go out of or come into the building. It was in this kind of "sealed off" space that PAC members prepared for submitting a bid for the big local client—Dragon Company.

In addition to the expenditure on building up the training center and the maintenance cost, physical resources mobilized for preparing for a bid can hardly be calculated precisely. For example, PAC spent 80,000 yuan (US\$ 9,639) on buying four portable computers for Market Research Department and Media Planning Department to prepare for this bidding specifically. It even spent 60,000 yuan (US\$ 7,229) on a projector that could be connected with portable computer directly, which made PAC members feel much more convenient (and professional?) while making a presentation in the bid.

This time, PAC invited four experts in market research and media planning—one from Hong Kong, and three from Shanghai—to work together with PAC members for four days. Except for the payment to these consultants, according to my rough calculation, the daily expenditure on "seal off" would be more than 9,000 yuan (US\$1,084). That is to say, in spite of other expenditures on preparing for bidding, the 8-day-long "seal off" had cost PAC at least 74,533 yuan (US\$8,980). Table 5.2 gives the details of PAC's expenditures on preparing for bidding for Dragon Company.

In addition to human and material resources mobilized during "seal off," PAC leaders also needed to legitimize the tough job and provide PAC members with incentives via certain symbolic means. Since the 36 people were expected to work out an excellent and comprehensive plan within the short period of "seal off", they had to keep racking their brains for more than 15 hours each day. Robert held three meetings everyday, which was respectively at 11 o'clock in the morning, 5 o'clock



in the afternoon and 10 o'clock in the evening. All the people were asked to present their new ideas at each meeting. It was obvious that no one could create so many new ideas within only a few hours. All the people were exhausted while two of them even became ill during the “seal off”. It was not until now that did I realize the real meaning of “going up the mountain”.

**Table 5.2 PAC’s Expenditures during  
“Seal off” for Bidding for Dragon**

Item	Content			8-Day-Cost
Salary	Occupation	Payment	Person	(yuan)
	Mr. Robert, Creative Director of PAC	20,000	1	5,333
	Bureau Directors & Dept. Managers	9,000	10	24,000
	Key members of varied departments	6,000	9	14,400
	Recruits	2,500	12	8,000
	Coordinator, Deputy GM of PAC	12,000	1	3,200
	Staffs in charge of logistic services	2,000	3	1,600
Food	Breakfast, 250 yuan per day			2,000
	Lunch, 1,000 yuan per day			8,000
	Dinner, 1,000 yuan per day			8,000
Total (yuan):				74,533

One day, Robert held a meeting at 10 o'clock in the evening as usual while James and four consultants invited by PAC from other ad agencies were all present at the meeting. After the meeting had lasted for an hour, Robert suddenly found three new hires absent—they were so tired that they wanted to take a break before the meeting, but they overslept. Robert first scolded a staff who was responsible for announcing the meeting to all the people. When three new hires finally came into the conference room in a hurry, Robert exploded. This was the first time I saw him criticizing people. His performance was definitely different from the polite manner he showed in normally back in PAC.

Robert criticized, “What do you guys come here for? While PAC is paying the food and boarding for you, you guys come here for a vacation, right? I have

been in charge of ‘seal off’ nearly ten times in three years, I had never encountered anyone like you! Does anyone here go to bed before 2 o’clock at night? If yes, please get out of here and get out of PAC immediately! ‘Going to the mountain’ has become a routine of PAC to prepare for bidding these years. But bidding is so cruel a fight to play that it is like we sacrifice 700 people to kill 1,000 enemies. Is anyone willing to play such a fierce and suicidal fight? No. But all the domestic ad agencies have been torn into pieces by international ad agencies. The ‘face’ (*lianmian*) of Chinese people in the ad industry only depends on PAC’s effort. No one can be the flagship of domestic ad agencies except PAC. But, PAC’s abilities in market research and media planning are too weak to compete with international ad agencies. Whether we can win the bid is highly depended on our creativity. In such a hard time, how can you guys fall into sleep easily? Are you guys really willing to be called fools by other people?” Robert complained for about 10 minutes and no one dared to speak a word during this time. At last, James stood up and added: “I will cut his head if anyone wants to be an army deserter.”

From Robert’s words as well as PAC members’ discourse during “seal off,” I could easily sense that PAC leaders used “nationalism” as a symbolic means to legitimize the “seal off” as a non-routine practice while bidding for local clients with international ad agencies. Also, when introducing the four outside consultants to PAC members, PAC leaders promoted their invitation as well as the four consultants’ cooperation to be benefit to national ad industry in China (In fact, they advocated nationalism even in their interaction with big local clients—it will be discussed later). By doing this, PAC leaders could mobilize not only financial resources and human resources but also symbolic resources in the preparation for a bid. It might heighten PAC members’ motivations and maximized the efficiency



and productivity of PAC members during the short period of “seal off” while minimizing the influence caused by PAC members’ shortage of other resources such as professional knowledge and skill in advertising.

*The mentality of internal management was reinforced during “seal off”*

When PAC leaders mobilized all the possible resources to prepare for a bid, the mode of advertising production in usual time and the mentality of internal management were reinforced rather than suspended during the “seal off.” There was a division of labor among all the people involved in the “seal off.” Some people were responsible for market research, some for media planning while others for creating advertisements. However, three groups of people worked in isolation without any coordination or communication, similar to the situation in PAC’s everyday operation. Due to the tight schedule, communication between various groups of people even was not encouraged during “seal off” sometimes. For example, once some creative people complained that they simply had no concrete information about the market, the product, the consumer or the competitors’ market positions. Therefore they suggested the market research people to give a brief introduction on it, which might stimulate some creative people’s inspirations. Robert rejected their suggestions because he thought it was unnecessary. He asked creative people to think hard themselves instead of relying on the market research people’s help. To a certain extent, it reflected PAC leaders’ consistent neglect of market research in advertising production. On the other hand, due to the authoritarian-style management, Robert’s personal taste had a great impact on PAC’s mode of advertising production.

PAC leaders had received the invitation from Dragon two months before

they organized people to “go up the mountain”. There had been enough time for them to prepare for the bidding, but PAC leaders including Robert did not plan it as early as possible. While PAC members relied upon Robert, Robert believed in his past experiences. According to Robert, to prepare for a bid much earlier was not better or more efficient than conducting a “seal off.” Therefore, during the two months, although the manager of Market Research Department had suggested to buy relevant data materials and to conduct a local survey of Dragon’s brand, products and consumers to gather first-hand information for several times, no one took it seriously. However, during the “seal off,” which was only two weeks rather than two months left before the bidding, one of the four consultants also suggested to conduct a survey, Robert granted that immediately. But, people in the market research department had to do the survey in a hurry while time was very limited for them to analyze the data and it was impossible for them to provide any substantial help to the creative people.

While preparing for a bid, the working arrangement and working schedule were totally controlled or set up by Robert and a Deputy-General Manager of PAC who was responsible for providing logistic-services. Nobody else knew exactly about how long the “going up the mountain” would last and how many layouts they should work out before they would be dismissed. Certain arrangement seemed to be arbitrary or even ridiculous. For example, one day Robert held a meeting at 10 o’clock in the evening and asked every creative person to hand in 100 advertising slogans before 11 o’clock next morning. The next morning, Robert collected all the slogans created by PAC members and conducted a discussion on these advertising slogans at the meeting. Before the meeting ended, Robert asked creative people to hand in another 50 slogans before 5 o’clock in the afternoon. Although I could not



work out as many slogans as Robert required, Robert was very appreciative of certain slogans that I had worked out because they sounded “creative.” As a result, he invited me and some experienced creative people to help him examining all the slogans created by PAC members. I found that most of the slogans were really useless—how could people think of hundreds of creative slogans in such a short period? It was obviously impossible. But, most of the creative people including those who had several years experiences were very poor in Chinese language and literature since they had made huge mistakes in writing sentences and words while creating advertising slogans. What could Robert do in such a circumstance? According to Robert, he was well aware that most of the slogans were garbage. But, taking PAC members’ poor level of creativity into consideration, the only way for Robert to reach a real creative advertising slogan, if possible, was to ask PAC members to think more and write down as many as possible. At least, it might provide a basis for Robert to select any useful sentences or words or stimulate his own thinking.

During my fieldwork in PAC, I asked Robert several times, in light of PAC members’ low level of creativity, why did he not put some efforts in summarizing his past experiences in bidding and setting up a training program, just like a great number of international ad agencies did. He told me that he was too busy to train other PAC members, or, he preferred to train people on-the-job. After I worked with Robert as well as other PAC members for nearly two months and particularly after I attended the “seal off” for Dragon, I recognized that Robert was very much enjoying his absolute authoritative position in advertising production in PAC. Preparing for bidding, as a critical moment for PAC, provided a special locale for Robert to show his value and to give full play to his professional knowledge and

skill in advertising production. Although what Robert had done was to create a professional performance for PAC in the front region, through which Robert himself became a professional symbol in PAC's operation, Robert still was a beneficiary of the authoritarian-style management in the back region. In another word, the more bids PAC attended, the more PAC members relied upon a few people like Robert. The more Robert enjoyed his authority and absolute power in advertising production, the more he would support the authoritarian-style management either in usual time or in preparing for a bid. Therefore, the mentality in internal management in PAC was reinforced rather than suspended through participating in a bid.

### **PAC's Excellent Performances in Bidding**

#### *Personal contact—first round competition before bidding*

While a group of people was preparing for the bidding, PAC leaders arranged some other people to collect as much information as possible on Dragon Company's preferences on advertising in the coming year. Actually, since Dragon Company was a big local client in Seaside Province, almost all the PAC managers had visited Dragon before and had built up more or less personal connections with managers of Dragon Company. According to the regulation of bidding, the client would provide all the participants the same information. However, personal connections were obviously helpful to establish trust, confidence, and favorable impression between a client and an ad agency. This is particularly the case in China, where the personal relationship was valued very much in social interaction.

Not all the managers in international ad agencies realized the importance of establishing personal connections in expanding business. For example, the General Manager of J&J had been in Phoenix City for 6 years, he had never visited Dragon



in person before the bidding despite the fact that Dragon was one of the biggest local clients. Therefore, while PAC leaders such as James and Robert were very familiar with bidding committee members—the managers of Dragon Company, the General Manager of J&J had to introduce himself by distributing his business cards to these managers of Dragon Company at the beginning of his company's presentation. It was obvious that he had lost the first round of the bidding.

### *Thoughtful arrangement and substantial presentation*

As presented in the beginning of the first chapter, PAC leaders took the bidding seriously and did sufficient preparations in almost every detail. They were experienced and thoughtful in presentation at bidding since they had attended various bids for about 10 times since 1997. For example, PAC members preferred to use the old-style microphone that was fixed on the table while giving the presentation, because according to their experiences, the old one was more reliable than the wireless microphone. Unexpectedly, one manager of J&J had dropped the wireless microphone to the ground 3 times during his presentation, which certainly would influence bidding committee's evaluation on J&J's performances in bidding.

Different from J&J that had promoted itself very much by illustrating its international clients' success in history, PAC members first advocated Dragon's success in competing with foreign electronic household appliance manufacturers by emphasizing on Dragon's contribution to the national industry. Then PAC members declared that the development goal of PAC was the same as that of Dragon Company, which was to "vitalize national industry" (*zhenxing minzu chanye*). During the development process, PAC must be the best partner to Dragon Company because similar to Dragon, PAC also survived and developed in competition with

international competitors. The bidding committee members laughed slightly for PAC members' self-confidence and clear attempt at establishing a bond. However, I could feel that their laugh was out of goodwill and they were more or less touched by PAC members' words in "nationalism".

With the help of the four external consultants that once had been managers in international ad agencies, PAC members imitated the format and procedure that international ad agencies usually used in presentation. In addition, PAC members had conducted a survey in a very short time and had acquired a large amount of first-hand information. The most impressive part to bidding committee members was PAC's penetrating analysis on Dragon's position in the market, its target consumer and its competitors. The analysis was not only based upon the data collected in a survey but also based upon PAC members' life experiences and their acute understanding of Chinese people's lifestyle. Being familiar with Chinese culture as well as Chinese society actually was a crucial advantage for domestic ad agencies to compete with international ad agencies for local clients, at least at the present time when international ad agencies made little progress in localization during the operation.

As for creating advertisements, PAC provided layouts nearly three times more than that provided by J&J. Regardless the creativity of these creative products, the bidding committee members must be deeply impressed by PAC members' hard-work, sincere attitude and enthusiasm in the preparation for a bid.

### **Integration of the Two Paradigms of Organizational Management**

PAC's activities around preparing for a bid as well as their presentation on the bidding provided a critical moment to illustrate how PAC leaders patrolled the



spatial partition and integrated the two paradigms of organizational management during operation. In spite of the shortage of resources in back region, PAC managed an excellent performance in the front region. The productivity of PAC and thoughtful arrangement around the presentation had nothing to do with the professional training or the well-structured production flow in the back region. Rather, they should be attributed to PAC leaders' effort in concentrating all the resources to prepare for a bid, during which the authoritarian-style management guaranteed a much efficient resource mobilization in a relatively short period. Without such kind of emergency resource mobilization in the back region, PAC could hardly stage an excellent performance and win the big local client in front region.

PAC's performances in the front region were dominated by the professionalist-style management, which advocated professional services an ad agency provided to its clients. Judging by PAC's presentation on the bidding, PAC was qualified enough to provide comprehensive advertising services to local clients and was at least as professional as international ad agencies. Taking the premium of such services into consideration, local clients preferred to choose PAC to be their partner rather than an international ad agency. Therefore, the professionalist-style management was crucial for PAC's professional performances in competition. However, the professionalist-style management functions primarily in structuring and staging performances in the front region. In terms of PAC's activities in the back region, there still remained the authoritarian-style management. Maintaining the state ownership and operating under a large amount of constraint, PAC had disadvantages in competing with international ad agencies. In order to keep an effective internal management and efficient resource mobilization while preparing

for a bid, PAC leaders conducted authoritarian-style management to carry out routine and non-routine practices in advertising production. While PAC's professional performances in the front region legitimized PAC's non-routine practices, such as "going up the mountain", and the mode of management in the back region, the authoritarian management in the back region in turn guaranteed PAC's performance in the front region and its achievements in bidding for big local clients. As a result, the two paradigms of organizational management integrated in the operation of a state-owned ad agency, which was short of various resources in the back region while facing intensive competition in the front region.

However, this analytical linkage between the back vs. front regions and the two modes of organizational management should not be interpreted rigidly. As a matter of fact, the two modes of organizational management penetrate into both the front and back regions to varying degrees. For example, although the "seal off" was conducted in the back region, the professional criteria were the criteria used for the preparatory work and creative products developed during the "seal off." It is Robert, the symbol of PAC's professional image, who was in charge of the activities during the "seal off." Similarly, at the bidding presentation, the PAC's team was rehearsed to perform in a military style, signified by the standard uniform and the commands that the former PLA officer and the Deputy General Manager delivered to the team. The PAC's experiences demonstrate that meeting the professional standards in serving clients advocated by international agencies could be achieved through the authoritarian-style internal management. The means for PAC is different from that of many international ad agencies. This does not mean that authoritarian-style internal management is unique to PAC or state-owned enterprises in China. Rather, it means that the effective uses of this style of internal management rooted in and



enabled by the state bureaucratic hierarchy reflect the continuous presence of the ideology and system of the state-planned economy.

## **Chapter VI**

### **Conclusion and Discussion:**

#### **The Hybridization in A Transitional Society**

##### **Organizational Dualism and Spatial Partitioning in PAC**

This study started with my curiosity over the survival and development of some first-tier domestic ad agencies during the marketization of the Chinese advertising industry. Although most of the first-tier ad agencies are state-owned with staggering disadvantages during the transition, how do they keep growing in the competition with more “professional and advanced” international ad agencies? I chose PAC, one of the largest state-owned ad agencies located in a region with the highest degree of marketization, as a case to answer my question. Through participant observations and in-depth interviews, I aimed at not only depicting how this particular state-owned ad agency operated during the marketization process but also connecting to the patterns of changes in the Chinese advertising industry in general. I also hoped to draw connections to the broader issue concerning the mode of institutional changes that are characteristic of reforms in a transitional society. At this broad level, PAC is a case within the case of China’s reforms and my interpretations of the intra- and inter-organizational dynamics observed in my case study are meant to shed light on the trajectory China’s Party-state institutions being eroded by market forces.

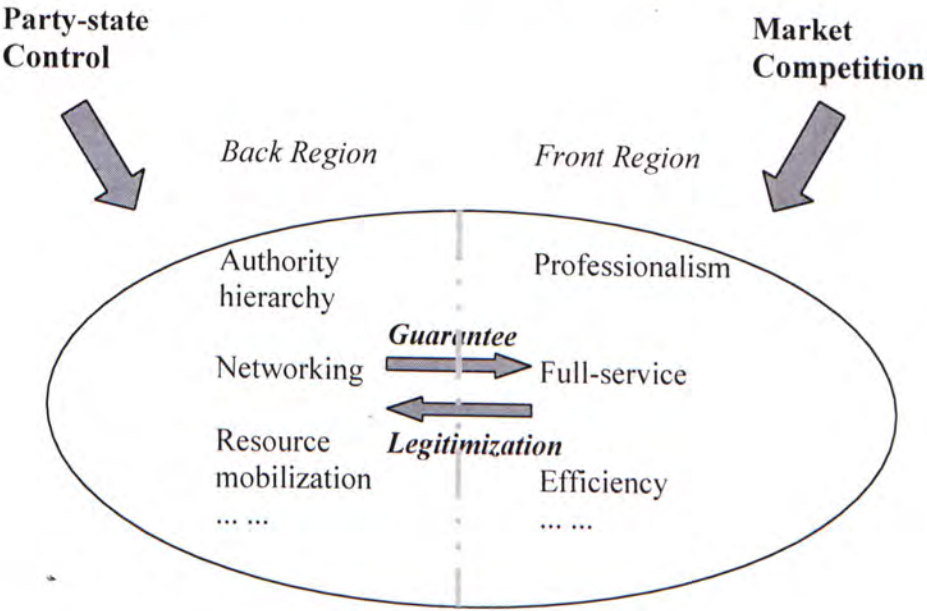
In my case study of PAC, I observed that PAC members strategically managed their performances and activities through their spatial partitioning in advertising practices. In the front region, PAC leaders implemented the professionalist-style management to establish the agency’s professional image and to provide professional services to the clients. In the back region, they enforced the authoritarian-style



management to effectively mobilize the limited resources in advertising production, especially at the critical moment of bidding for local clients against international ad agencies. PAC's professional performances as well as their winning in all the bids in the front region legitimized the dual modes of operation and the continuous uses of the authoritarian-style management in the back region. The two modes of organizational management and the two corresponding ideologies reinforced each other. Together, they enabled PAC's survival and development in the intensive competition with international ad agencies.

Figure 6.1 is an illustrative scheme to show the state control and the market competition, the front and back region arrangement, and the reinforcement between the two paradigms of organizational management in a state-owned ad agency in China.

**Figure 6.1 An Illustrative Scheme of the Push-and-Pull Forces, the Front and Back Region Arrangement in A State-owned Ad Agency in China**



My case study shows the tensions between the two paradigms of organizational operations during the transitional period in China. Here, I am using the concept of “paradigm” in the sense analogous to that in Thomas Kuhn (1962) when he examined

the trajectory of development in scientific knowledge. A paradigm is composed of an overarching worldview or ideological framework, a set of principles and procedures (i.e., methodology) of doing things, and a set of concrete cases that typify the worldview and the corresponding methodology. Specifically to organizational operations in China, we can differentiate two paradigms revealed in the professionalist-style and authoritarian-style management. Each of them is characterized by a set of routine practices based on the principles derived from and procedures founded on a particular ideology. The professionalist-style management is rooted in the ideology of market economy which stipulates first of all an agency-client relationship in terms of quality service and fair competition in the market and secondly the intra-organizational dynamic based on the client-oriented structural arrangement and work flow. The authoritarian-style management, in contrast, is developed within the ideology of state planned economy which stresses the personality and charisma of the authoritative figures within an organization and interpersonal connections (i.e., *guanxi* in Chinese) with significant others of an organization. Both paradigms are first of all present in a state-owned agency. To a large extent, the very fact of an ad agency owned by the Party-state with a designated administrative ranking in the Party-state hierarchy is a clear indication of contradictions resulted from mixing the two paradigms. When placed in the context of the reforming China, we can say that the case is a microcosmic of the growing advertising industry and the changing society in China.

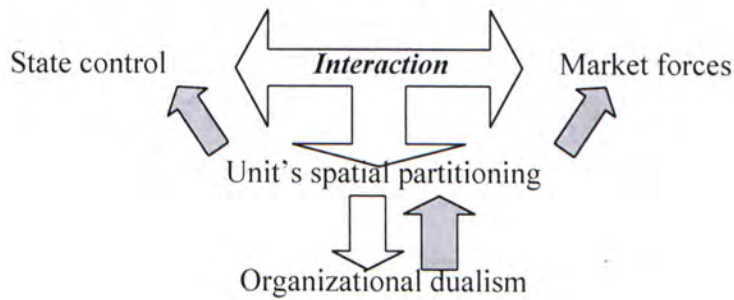
The integration of the two paradigms of organizational management in PAC's intra- and inter-organizational dynamics reflects an organizational dualism in PAC's operation. Organizational dualism here refers to the mixture of not only an ad agency as a profit-seeking as well as a bureaucratic entity. All complex organizations in the sphere of economic production in a market economy have such a feature. Specific to the case of China, organizational dualism also refers to the mixture of the ideology of



market economy and that of state-planned economy in the operation of an organization. For PAC, the kind of organizational dualism has taken root in its operation since the very beginning of its establishment. As a “state-owned” entity, PAC was born into the authoritative and hierarchical structure of the state-planned economic system, where its activities were under the surveillance and control of the state—until today, PAC is placed under the supervision of a provincial government agency, which leaves its fingerprints in PAC’s operation through key personnel appointment, general framework of the financial management, and the presence of a Party cell. Through the direct penetration into PAC and the structuring of the macro environment in which PAC operates, the state power patrols the boundary of planned economy system and pulls state-owned enterprises to stay within that boundary. Meanwhile, as an “advertising agency,” PAC needs to survive and develop by providing professional services to the clients, in other words, by following the rules of market competition. Both the advertising services that an ad agency provides to its clients and the professionalism advocated through and by international ad agencies are developed in and constitute in part a market economy. Consequently, the market force through competition pushes ad agencies toward professionalization. PAC is operating under the tension between the two forces, which is being intensified by the ongoing marketization of Chinese advertising industry and the insurgence of international ad agencies in China’s advertising market. PAC is bound to maintain its state ownership and to guarantee the state control in its internal management while competing with international ad agencies for local clients. Therefore, spatial partitioning of the front and back regions and devising non-routine practices in each become strategic means for PAC to deal with the tension between state control and market force. Figure 6.2 illustrates that the interaction of the two forces has its impact on an organization’s spatial partitioning. It is through this kind of spatial partitioning that the organizational dualism emerges.

Later on, the organizational dualism that is embedded in the operation of an organization will reinforce the two forces upon the organization.

**Figure 6.2 The Push-and Pull Forces,  
Spatial Partition and Organizational Dualism**



The organizational dualism is not only embedded in the operation of PAC—a specific case in my study. Rather, it can be recognized in the operation of many state-owned agencies and units in either the advertising industry or in other industries in China. Media organizations, for example, face the similar push-and-pull forces and reveal the similar dualism. On the one hand, they are operating under the strict surveillance of the party-state and on the other, they are pushed to earn their own living in the market. Without government subsidies, Chinese media have to draw resources from the market by conducting certain non-routine practices in news production as well as media management (Pan, in press). Meanwhile, they are not allowed to go too far in the market since they are still the propaganda tools of the state while their practices in marketization are still constrained by the political institutions. Examining the organizational dualism in media organizations' operation therefore could help us to understand the media reform in China and to answer the question why something has changed while some other things remain during the marketization of Chinese media.

The integration of professionalist-style management and authoritarian-style management as well as the mixture of market economy ideology and planned economy



ideology in the operation of state-owned enterprises during marketization should be examined in relation to the characteristics of reform that is taking place in the Chinese society. China's reform was initiated by the government and is conducted under a relatively stable structure where the Party-state maintains its control in almost every aspect of the society. As a result, the marketization is both unleashed and caged by the Party-state and the incorporation of market elements into the Party-state configuration forces social actors, either organizations or individuals, to deal with the tensions between the two forces in order to survive in the state-patrolled marketization. The hybridization of the two ideologies is inevitably embedded in social actors' practices during China's reforms.

### **Social Practices in A Transitional Society: A Spatial Perspective**

In this study, I tried to interpret the organizational transformation and social actors' practices in a transitional society in a spatial perspective. In the spatial perspective, all the social actors' practices are seen to be situated and related to the settings of a particular locale. Therefore, the operation of state-owned entities such as PAC in marketization should be examined in relation to the specific settings of the changing Chinese society as well as the social-historical environment of the Phoenix City. During the reforms, the state-planned economy system and the market economy system now coexist in Chinese society. For state-owned enterprises, their routine practices in the state-planned economy no longer fit to the changing conditions in China. To deal with the tension between the two systems, state-owned enterprises must invent a series of non-routine practices, i.e., the practices not prescribed in the state-planned system, in their operation. However, devising and carrying out such non-routine practices could be risky in that they might bring political sanctions from the Party-state authority or market failure. As a result, very often, such non-routine practices are

“bounded innovations”—a version of a reform idea trimmed and shaped by the highly political process of the reforms (see Weir, 1992). Upon their implementation, such non-routine practices might become related to neither the planned economy system nor the market economy system solely; rather, they might be a hybrid of some sort. As for PAC, it promotes itself in the media, adopts the teamwork system in advertising production, reconstructs its organizational structure, designs a new compensation program and conducts “seal-offs” for bidding for local clients. All these practices are non-routine ones for state-owned ad agencies in a planned economy system. However, PAC members adopt them not only for dealing with the pressure of competition as well as professionalization, but also for making up their shortage of resources and other disadvantages in competition due to the state ownership. Therefore, the non-routine practices PAC members carried out are situated in the market competition that PAC has been facing as well as the state control that PAC is placed under.

Social practices of this kind are related to social actors’ knowledgeability (Giddens, 1984), which refers to social actors’ awareness of rules of the game played in specific settings that enables them to apply some rational scheme of decision making. For PAC’s leaders, they are very clear about the settings of the agency’s locale, i.e., PAC must compete with international ad agencies with its state ownership remains. As a result, their decisions and practices that are interpreted in spatial terms throughout this study can be seen as at least micro rational in that they are devised to maximize PAC’s interests at a specific moment in a specific setting. For example, “seal-off” is an effective venue to concentrate all available resources to develop a professional performance in front of clients while bidding for their business. Similarly, the “military-style administration” is effective in achieving the necessary internal resource mobilization to support the design and staging of such a performance. Further, to legitimize the authoritarian-style management in the operation, the PAC leaders



promoted “nationalism” during “seal-off”, called for learning from Robert in the announcement board, gave “Party lessons” to PAC members and encouraged retired military officers to maintain the military mentality and style. All of these tactics and practices are rational in that they enable PAC to strategically integrate the two paradigms of organizational management to achieve market growth. As for the long-term effect of such a hybrid mode of operation on PAC’s professionalization, PAC leaders did not take it into consideration. What they calculated was that the non-routine practices could maximize PAC’s interest while would not bring any political and economic risk in present. The shortsighted mentality in management was typical for managers during the transitional period; they also reflect the knowledgeability of social actors operating under tremendous institutional uncertainties.

The organizational dualism in PAC’s operation, the state-patrolled marketization of Chinese advertising industry and the hybridized nature of China’s reforms provided good cases for us to study institutional change in a transition society. When foreign ad agencies first entered China, marking the beginning marketization of Chinese advertising industry, many people predicted that the state-owned ad agencies that had developed in the state-planned economy would disappear while international ad agencies would dominate Chinese advertising industry in a very short period of time. However, since the establishment of the first international ad agency in China, 13 years have passed. Most of the first-tier ad agencies in today’s China are still state-owned ad agencies. In spite of the intensive competition, some state-owned ad agencies could keep growing and even beat international ad agencies in bidding for local clients. Some state-owned ad agencies such as PAC have been imitating the mode of advertising production in international ad agencies in order to make a rapid progress in professionalization. Meanwhile, international ad agencies also put a large amount of effort in localization by employing more and more local people and seeking for local

clients. Both domestic ad agencies and international ad agencies are eager to adapt into a transitional environment, where the two different economy systems are mixed together. Such adaptation and localization to fit in a new environment will take a long period of time, constituting an incremental but zigzag trajectory of institutional changes in Chinese advertising industry in particular and Chinese society in general.

Seeing the connections between what I observed at PAC, a domestic ad agency, changes in Chinese advertising industry, and China's reforms, in this study, I take the broad conceptual framework of social change in a transitional society such as China, where there is interplay between market forces and the authoritative state control. My ultimate goal through this study is to achieve a better understanding of the social changes in Chinese society since the implementation of open-door policy in 1979 and the market-oriented economic reform in 1992.

Placed in this broad conceptual setting, we can see that the tensions and dynamics involving the state-control and marketization are acute in a state-owned advertising agency in particular and in the development of Chinese advertising industry in general. Advertising industry as an imported set of market activities, organizational relationships, and cultural expressions with its own peculiar rules and conventions of operation is not only heavily regulated by the state, more importantly, it is now actively incorporated into the state-initiated reforms to establish China's "socialist market economy." Its resurrection and rapid growth in China since 1979 are synchronous with the inauguration and expansion of China's economic reforms, they also reflect quite clearly the major tensions in the reforms. Consequently, the spatial perspective developed on the basis of general theories of social and institutional changes provides a set of powerful conceptual tools to make sense of the empirical observations from my case study. In essence, it provides a conceptual scaffold to connect the case of a state-owned ad agency to Chinese advertising industry and to the general social changes in China



during the reforms. In addition, it allows for drawing connections between different levels of analysis, including individuals, organization, and social structure.

### **Spatial Partitioning in Local Clients and International Ad Agencies**

Coming back to the case, we may ask why is PAC able to win local clients through the kind of spatial partitioning discussed in this study while some international ad agencies are not? Or, why do local clients prefer to cooperate with certain domestic ad agencies instead of more reputable international ad agencies that have plenty of advantages and resources? At least two reasons can be given here.

The first reason is that there is a similar spatial partitioning in the management of some local clients themselves. Marketization has caused intensive competition not only in ad industry but also in many other industries in China. Local clients are also facing the problem of professionalization in management and growth in the market. Dragon Company, for example, has changed a lot in its organizational structure and has put much emphasis on sales and marketing of its products these years. To deal with the fierce competition and to build its image of modern manufacturer, Dragon Company has set up “Marketing Planning Center” and each year spends a large amount of money to hire people who are experienced in marketing and advertising. Most of the people in “Marketing Planning Center” graduated from colleges and universities and have several years of experiences in advertising and marketing and the director from Hong Kong once served as the Account Director of an international ad agency for many years. However, due to the authoritative mentality in internal management and the shortage of knowledge on advertising management, the top leaders of Dragon Company usually determine the strategy of advertising and marketing by themselves instead of relying on the “Marketing Planning Center.” Although the center is normally responsible for selecting an ad agency through bidding and planning an ad campaign for a new product,

the top manager of Dragon Company prefers to make the final decisions by himself. This mode of advertising management led to a large amount of careless alternations on and casual shifts in advertising strategies during the execution of an ad campaign. That is to say, Dragon Company has recognized the importance of advertising for a modern manufacturer and has structured an organizational unit to deal with the matter of advertising in the front region. But in the back region, top managers have yet to rid the authoritative mentality in the internal management. This mixture of two paradigms has made the cooperation between client and an ad agency, especially an international ad agency, difficult if not impossible. In this case, certain state-owned ad agency becomes a better choice for local clients because the former is much more familiar with the latter's mode of management and much more experienced in getting along with local clients than international ad agencies do. Basically, there is fitness in not only the shared Chinese culture, but also the authoritarian style of management between domestic ad agencies and local clients.

The second reason is due to the little progress that international ad agency has made in "localization"—the process that an alien organization alternates or adjusts certain parts of its management to adapt to the local environment. The initial rapid growth of almost all the international ad agencies in China was supported by their international clients entering the Chinese market. In the first few years of their establishment in China, these international ad agencies are simply executing the advertising and media-buying plans in the Chinese market as part of their clients' global marketing plan. Compared with the billing of international clients, big local clients' advertising expenditures are only a minor part of the entire business of international ad agencies. Therefore, they would rather put their efforts and spend a large amount of resources on obtaining or serving international clients rather than local clients. For reasons of serving multi-national clients and maintaining their own brand name as



international ad agencies, they prefer to keep the prices of their service high and remain the rigid procedure of advertising production instead of changing them to fit what they view as erratic expectations of local clients. For example, both the time for creative people to create and produce advertisements and that for clients to confirm a layout or a script of TV commercial are regulated very clearly in the contract of an international ad agency with its client (See Appendix 2). Besides, once the client signs and confirms the advertising plan, each revision raised by the client on the plan will be charged as another new assignment while the deadline must be postponed correspondingly. In spite of this, international ad agencies usually charge their clients depending upon their time-cost on certain project. The time-cost of international ad agency is the product calculated by the wage of the people involved in the project and the total amount of time they spend on it. It is really difficult for local clients who are compelled to make swift changes to obtain quick returns from the market to accept such mode of cooperation with international ad agencies. At the same time, although a great number of local people are now working in international ad agencies, they have yet to have enough opportunities to be promoted as senior managers. As a result, it is much more difficult for local clients to communicate with international ad agencies than with domestic ad agencies.

The implication of my arguments here is that spatial partitioning also exists in international ad agencies' management. In the front region, international ad agencies actively participate in either bidding for local clients against domestic ad agencies or building up in the media their image of professionalization, localization, and qualification to be the leaders of China ad industry. In the back region, they maintain their organizational structure, management mentality, production procedure, and professional standards rather than modifying and adjusting them for the local market. While spatial partitioning in PAC is due to the shortage of certain vital resources during

the marketization, spatial partitioning in international ad agencies in contrast is enabled by their sufficient resources including gigantic clients, experienced personnel, successful history and the favorable symbol of “professionalism” or “advanced development” in the competition. As a result, international ad agencies have the luxury to choose “suitable” local clients to cooperate with while domestic ad agencies have to try to win over all the possible clients without too many choices. To domestic ad agencies, the most important thing is to survive and to adapt into a changing environment, where marketization and professionalization are the rules of the game. For international ad agencies, they are setting the pace and the rules on how the game is played.

### **Organizational Evolution in A Transitional Society**

With the help of spatial perspective, I articulated how and why a state-owned ad agency as PAC was able to keep growing and win for local clients while competing with international ad agencies. My conclusion is that, it is through the spatial partitioning to accommodate both routine and non-routine practices can PAC leaders efficiently mobilize limited resources, keep the everyday operation coherent, and guarantee an excellent performance in competition.

But, what is the generalizability of my conclusion drew from a study upon only a case? How far away can it go?

PAC, the case in this study, is one of the domestic ad agencies with longest history in China. Its birth was a result of CCP’ open-door and economy reform policy started from 1979. During its 20 years long history, PAC not only witnessed the development of China ad industry but also became a successive participant who has experienced the tension of planned economy ideology and market economy ideology. As a state-owned ad agency dominated by planned economy ideology, PAC once was



guaranteed to monopolize local advertising in 1980s and then suffered severe loss of human resources and clients in the early of 1990s. Benefiting from the open-door policy, Phoenix City is one of the several cities that opened to foreign investment first and engaged in marketization much earlier than other cities in China. In order to encourage the development of local ad industry, the city government gets rid of the limitation on the total amount of ad agencies. Also, the government department that supervises PAC guaranteed relatively more autonomy to PAC by relieving it from handing in its profit and planning to share the ownership of PAC with PAC managers.

In short, the ups and downs of PAC in the past 20 years actually are the epitome of state-owned ad agencies' development in China since 1979. It includes the success as well as the failure, the advantages as well as the difficulties that state-owned ad agencies experienced during the reform era. It reflects the tension between planned economy ideology and market economy ideology during the development of the advertising industry in China. Based on this recognition, the case provides an empirical basis for me to link my conclusion from this case to the development of organizations in a transitional society. That is, if the state's monopoly upon certain industry is suddenly released due to the introduction of an alien ideology, some of the organizations in the industry will adapt to the changing environment through strategic spatial partitioning. To deal with the competition caused by the transition of the society, they will manage their performances in the front region according to new rules of the game while maintaining the old mentality of management for a relatively long time in the back region. This kind of spatial partitioning can make it possible a good performance for an organization to survive in competition based upon limited resources. As a result, it prevents the organization from a sudden demise or a radical change.

Spatial partitioning may not be the specific characteristic of organizational management only in a transitional society. However, the distinction between the

mentality in management in the front region and that in the back region may be particularly pertinent to organizations involved in intensive competition in a transitional society, where ideologies that once were alien to each other are woven together now. Whether the distinction between mentalities in management in various regions will be reduced depends on both the adaptation of an organization and that of the other social units that form the organization's ecological relationships to the transformation in the society.

The spatial perspective is much helpful for us to understand questions about the social change that has been taking place in China. For example, why have some aspects of an organization's management changed while others remained? Why did some organizations keep growing while others disappeared in competition? Why are globalization and marketization of certain aspects much easier than that of other aspects of an organization or an industry? Why are the professional standards and practices often distorted in the process of "professionalization" as well as "modernization" in China? The spatial perspective is a very useful conceptual scaffold for us to answer these questions because it provides a unique angle for us to analyze what happens not only in the front region but also in the back region of an organization or an industry and how such happenings might be related to overall changes in a society.

In Chapter III and Chapter VI, I presented my effort in boosting the validity and generalizability of my interpretation. However, this study has its limitations as in most case studies. For example, although I had employed "triangulation" and "comparisons" in this study to reduce the likelihood of misinterpretation, and collected a large amount of archival materials to get a general picture of Chinese advertising industry, most data were collected through my participant observation and in-depth interviews in PAC. Also, in order to avoid the sensitivities of my interviewees, I did not use a tape recorder during the interviews and sometimes I had to note down their words and sentences after



my conversations with my interviewees. It may more or less influence accuracy and reliability of my interpretation. Also, how long should a case study last? Is it “intensive” enough for me to conduct a two-month-long fieldwork in PAC? The short period of my fieldwork as well as the single case study bring limitations to my research.

Fortunately, in Stake’s words, “the purpose of case study is not to represent the world, but to represent the case” (Stake, 1998, p. 245). If we talk about the details concerning the management of a state-owned ad agency and advertising production, then, my case study is no more or less than a case study. If we talk about what the case illuminate, however, my case goes together with other studies on the changing organizational practices and cultures in China during the reforms. In other words, the spatial partitioning and the inter-weaving of two conflicting paradigms are typically observed and reported in other studies.

Appendix

1. Work-sheet of J&J (Phoenix, China):

J&J Advertising

Phoenix. China

Job Requisition/Brief

Job No. \_\_\_\_\_

Client \_\_\_\_\_

Brand \_\_\_\_\_

Date \_\_\_\_\_

Media \_\_\_\_\_

Language: ☐Chinese ☐English

Size of space \_\_\_\_\_

Color: ☐4C ☐B/W

Deadline	Date	Time	Signature
Copy/Layout/Storyboard			
Finished Art			
Radio/TV A Copy Printing proof			
Publication/Air date			

☐Brief (check list)

☐Brand Definition

☐The Role of advertising

☐Where are we

☐Button

☐Support

☐Musts

☐Brand Print

☐Advertising available

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Creative Team \_\_\_\_\_

Account Team \_\_\_\_\_

Creative Director \_\_\_\_\_

Account Director \_\_\_\_\_

2. J&amp;J's work flow for producing TV commercial:



- 1) Briefing given by client
- 2) Developing creative strategy (**2 weeks**):
  - Collecting information
  - Analyzing information
  - Discussing on creative strategy
  - Making creative strategy
- 3) Presenting creative strategy to client
- 4) Revising the strategy based upon the discussion with client (**1 week**)
- 5) Presenting revised creative strategy to client
- 6) Finalizing creative strategy/storyboard
- 7) Selecting TV commercial production agency (**1 week**)
- 8) Recommending the production agency to client
- 9) Confirming the quotation price given by the production agency
- 10) Preparing for shooting (**1 week**)
- 11) Client prepays 50% of the expenditure to J&J
- 12) Client confirms the storyboard, stage property for shooting, the way of shooting, music style, players.
- 13) Shooting and production (**4 weeks**)

... ..

*\*After reaching a confirmation, the time and the expenditure on any revision raised by the client should be re-calculated.*

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